ANNUAL REPORT **2007**

Benefun

Benefun International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 1130)

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. TAN Sim Chew, *Chairman*
Mr. ZHONG Ma Ming, *Managing Director*
Mr. FU Zi Cong
Mr. LO King Fat, Lawrence

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WONG Kwai Sang, Kays
Mr. TSANG Chun Pong
Mr. LI Chun Ming, Raymond

AUDIT COMMITTEE

Mr. WONG Kwai Sang, Kays
Mr. TSANG Chun Pong
Mr. LI Chun Ming, Raymond

COMPANY SECRETARY

Mr. LO King Fat, Lawrence
CPA

AUDITORS

BDO McCabe Lo Limited
Certified Public Accountants

PRINCIPAL PLACE OF BUSINESS

1-18 Xinhe Industrial Park
Dianqian, Huli
Xiamen
China

HONG KONG OFFICE

23rd Floor
Sing Ho Finance Building
166-168 Gloucester Road
Wan Chai
Hong Kong

REGISTERED OFFICE

Ugland House
South Church Street, P.O. Box 309
George Town, Grand Cayman
Cayman Islands
British West Indies

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Hopewell Centre
46th Floor
183 Queen's Road East
Wan Chai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
Fort Street, P.O. Box 705
George Town
Grand Cayman
Cayman Islands

PRINCIPAL BANKERS

DBS Bank
Industrial and Commercial Bank of China
Agricultural Bank of China

STOCK CODE

1130

WEBSITE

http://benefun.etnet.com.hk

I hereby present to the shareholders the annual reports of Benefun International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2007.

BUSINESS AND OPERATION REVIEW

For the year ended 30 June 2007, the Group faced difficult situation in our retail segment of business. Fierce price competition coupled with upsurge of product supply cost, shop rental and manpower costs adversely affected both sales turnover and margin substantially. Sales turnover decreased to HK$153.7 million from HK$219.4 million, while gross profit dropped to HK$53.9 million from HK$70.9 million. As a result of reduced margin but increasingly high rental and staff outlays on shops, the Group incurred a net loss of HK$38.2 million for the reporting year.

During the year, the Group continued to focus much on the fashion retail market in Mainland China. As at 30 June 2007, the Group operated 192 "Fun" brand stores in China. In the reporting year, the number of directly managed stores increased slightly to 153 from 148, while the number of franchise stores decreased to 39 from 87.

The Group had adopted strategic measures to enhance brand image to compete against local and international fashion players. We managed to sell quality products identified with a contemporary style. Ladies' wear and men's wear for casual, denim and contemporary collections were structured and delivered to our customer segment. The Group had also launched stringent measures to curb operating cost increase. We explored new sources of fabric and merchandise supplies, and we worked hard to negotiate more reasonable terms with landlords upon shop lease renewal. However, the inflation pressure on product supplies, rental and manpower costs offset our effort for profit improvement.

Although China's economy continued to record an upward trend at a high rate, the retail industry underwent a difficult process. Owing to strong demand for presence by new local and international market entrants, shop rent had dramatically risen by 2 to 3 times on lease renewals. Furthermore, the high turnover of frontline personnel made the retail operation unstable. Our strategy during this turbulent retail situation was to consolidate our scale of operation to preserve resources for future business challenges.

The Group had outsourced a higher proportion of production orders to external factories in order to take full benefit on bulk purchasing and risk reduction. Since the second-half of the year, the Group had closed its own denim and knitwear production plants and sold related machineries. Thereafter, all supply orders had been placed to competent and qualified factories throughout the region.

Although the retail situation was unstable and volatile in the year, the overall economic and political environment continued to leap at a great pace in Mainland China. The general population, especially the rising middle-class, was able to accumulate monetary wealth to improve their living environment, which contributed to a booming property market. Our property development projects in Zhangzhou City of Fujian Province were in smooth progress. The construction of a 22-storey commercial/residential building known as "Singapore Ritz" with an usable area of approximately 15,800 square meters was at the completion stage. The pre-construction plan for another two pieces of land with a total land area of approximately 30,000 square meters was almost completed.

PROSPECT

In the past decade, China has been hitting annual new records of GDP growth. The spending power of the rising middle-class is accumulating tremendously. Demands for status recognition, stylish products, enjoyment and good living places are particularly strong. Our Group is dedicated to capitalizing business opportunities from these needs.

We foresee that the retail market will be increasingly competitive and volatile although dynamic. Our policy is to operate retail business under modest risk and lower cost only. We will terminate the leases of loss-making shops immediately or allow them to lapse upon expiry. We are also revamping and restructuring current franchising mechanism. From then onward, we will operate distribution channels through new franchising programs to reduce risk. We will only select and invite reputable and high caliber franchisees to run our innovative new concept "Fun" shops. Our emphasis will be on boosting "Fun" image through strong communication of its unique brand character to our selected customer groups.

A strong and growing economy of China will lead to faster diffusion of urbanization to second and third tier cities. The dramatic rise of a nationwide middle class has created a strong demand for quality houses and apartments. Yet, the house supplies lag far behind the demands. The Group will take business opportunities from the booming property market aggressively yet prudently.

The construction of the 22-storey commercial/residential building known as "Singapore Ritz" in Zhangzhou City will be completed before the end of 2007, and launched into the market around mid-2008. The pre-construction plan for another two pieces of land in Zhangzhou with a total land area of approximately 30,000 square meters has been largely completed. The actual pre-construction work will commence once relevant Government certificates are obtained in the next few months. We will prudently acquire additional land reserves in other cities that are undergoing urbanization. The management believes that these property development projects will generate constant and substantial revenue to the Group in the years to come.

APPRECIATION

On behalf of the Board of Directors, I would like to thank all our shareholders, staff, customers, and suppliers for their genuine and continuous support extended to our Group.

Tan Sim Chew
Chairman

Hong Kong, 12 October 2007

OPERATING PERFORMANCE

A review of the business operation and prospects of the Group is contained in the Chairman's Statement.

The Group's turnover for the year ended 30 June 2007 decreased by 29.9 percent to HK$153.7 million. The Group suffered a loss amounting to HK$38.2 million.

The unsatisfactory results for the year under review were mainly due to the following reasons:

1. Price war among new and old fashion retailing competitors was serious. Consumers hesitated in price selection and brand loyalty while retailers had pressure on turnover inventories. Profit margin could not be improved because early and substantial sales discounts became a usual business practice in China;

2. Shop rent increased at high rates upon lease renewal. Sales increases could not match at the same pace with general rental increases;

3. Overall operating cost including salary etc increased at a high rate;

4. Higher stock write-off, and fixed asset write-off upon closure of production plants.

LIQUIDITY AND FINANCIAL RESOURCES

The gross profit was HK$53.9 million as compared with HK$70.9 last year. Gross profit percentage was 35.1% as compared with 32.3% last year.

Apparel inventory level was HK$10.9 million, as compared with HK$9.3 million last year. Average stock turnover for the year was 1.3 months, as compared with 1.2 months.

Net cash outflow from operating activities was HK$27.1 million for the reporting year, compared with HK$30.2 million for the prior year. Cash balance at the year end amounted to HK$20.4 million, versus HK$4.7 million at the prior year end.

Outstanding bank loans as at 30 June 2007 was HK$40.0 million (2006: HK$5.8 million). The bank loans were secured by the Group's interest in leasehold land included in inventories under the category of properties under development and the Group's investment properties and interest in leasehold land held for own use under operating lease.

Capital commitment contracted for but not provided in the financial statement at 30 June 2007 was approximately HK$29.4 million, as compared with HK$40.0 million last year.

The debt equity ratio as at 30 June 2007 was 0.42, compared with 0.06 on the same date last year.

The Group's current ratio as at 30 June 2007 was 1.42, as against 2.43 at the prior year end. Quick ratio was 1.09, versus 1.91 at the prior year end.

HUMAN RESOURCES

As at 30 June 2007, the Group had 1,288 employees (2006: 2,253). The Group offers competitive remuneration, bonus and share option packages based on the performance of the Group and that of individual employees. Much weighting is placed on keeping high quality personnel at all levels. Relevant training courses are offered to employees regularly.

DIRECTORS

Executive Directors

TAN Sim Chew, aged 60, is the founder and Chairman of the Group which was established in 1986. Mr. Tan is responsible for the overall management and strategic planning of the Group. He has over 25 years of experience in the apparel distribution and manufacturing business.

ZHONG Ma Ming, aged 47, had been the deputy general manager of Fun Corporation, a subsidiary of the Company and our operating company in the PRC. He joined in 1990 and has been responsible for the management and expansion of our retailing operation nationwide in the PRC. He has more than 20 years' experience in retailing management.

LO King Fat, Lawrence, aged 53, joined the Group in 1990 and is the financial controller of the holding company. He has over 25 years of experience in finance, auditing and accounting. Mr. Lo is an associate member of the Hong Kong Institute of Certified Public Accountants.

FU Zi Cong, aged 50, joined Fun Corporation in 1989 and is the financial controller of Fun Corporation. He has over 15 years of experience in financial management. Prior to joining Fun Corporation. Mr. Fu was a finance manager with a trading company. He holds a diploma in business accounting.

Independent Non-executive Directors

WONG Kwai Sang, Kays, aged 55, is a property consultant. He holds a Bachelor of Social Sciences degree from the University of Hong Kong. He is a fellow member of the Hong Kong Institute of Real Estate Administration and of the Australian Institute of Building respectively.

TSANG Chun Pong, aged 51, is a lecturer of a post-secondary education institute. He holds a Master of Business Administration degree from the University of Ottawa, Canada and a Master of Arts degree from the Chinese University of Hong Kong respectively.

LI Chun Ming, Raymond, aged 51, is a senior manager of Tony C. M. Yau & Company, Certified Public Accountants. He holds a diploma in accountancy from the Polytechnic. He is an associate member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Association of International Accountants. He has nearly 25 years experience in accounting, auditing, taxation and corporation advisory services.

SENIOR MANAGEMENT

CHEN Hui Bin, aged 51, is the deputy general manager of Fun Corp. She joined in 1989 and is responsible for the administration and human resources. She has over 15 years experience in management.

CHAN Yiu Kuen, Holfred, aged 52, is the Group's internal auditor. He joined in 1998 and is responsible for the review and supervision of the Group's financial reporting process and internal controls. He has nearly 25 years of experience in finance, auditing and accounting. Mr. Chan is a fellow member of the Association of Cost and Executive Accountants in the United Kingdom.

HO Lai Yuet, Brenda, aged 54, is the finance manager of the holding company. She joined in 1985 and is responsible for the finance and accounting functions for the holding company. She has over 25 years experience in accounting.

The Company is dedicated to maintaining a good credible framework of corporate governance with a view to being transparent, open and accountable to our shareholders.

The Company has adopted all the code provisions as set out in the Code on Corporate Governance Practices ("the Code") in Appendix 14 of the Listing Rules as its own code on corporate governance practices.

The Company has complied with code provisions as set out in the Code during the year ended 30 June 2007.

THE BOARD

Composition

The Board consists of four Executive Directors and three Independent Non-executive Directors ("INED(s)"), one of whom has the appropriate professional accounting experience and expertise. The names and biographical details of each Director are disclosed on pages 8 to 9 of this Annual Report.

Each INED has, pursuant to the rule 3.13 of the Listing Rules, confirmed he is independent of the Company and the Company also considers that they are independent. The term of office of each INED is for a period of three years subject to the requirement that one-third of all the Directors shall retire from office by rotation at each annual general meeting pursuant to the bye-laws of the Company. Save as disclosed in the biographical details of each Director, there is no other relationship (including financial, business, family or other material/relevant relationship) among members of the Board.

Function

The Board is responsible both for how the Company is managed and the Company's direction. Approval of the Board is required for the strategy of the Group, major acquisition and disposal, major capital investment, dividend policy and payment, appointment and retirement of Directors, remuneration policy and other major operational and financial matters. Day-to-day operations of the Group are taken up by the Company's management comprising the four Executive Directors.

The Board has established schedule of matters specifically reserved to the Board for its decision and those reserved for the management. The Board reviews this schedule on a periodic basis to ensure that it remains appropriate to the needs of the Company.

The Board held four regular Board meetings at approximately quarterly interval during the year ended 30 June 2007. Additional board meetings were held when necessary. Due notice and board papers were given to all directors prior to the meeting, in accordance with the Listing Rules and the Code. Details of individual attendance of Directors are set out in the table below:–

Attendance of individual Directors at Board meetings for the year ended 30 June 2007

Number of meetings: 13	
Executive Director	
Tan Sim Chew *(Chairman)*	13
Zhong Ma Ming *(Managing Director)*	4
Lo King Fat, Lawrence	13
Fu Zi Cong	6
INEDs	
Wong Kwai Sang, Kays	5
Tsang Chun Pong	7
Li Chun Ming, Raymond	7

The Board has established procedure, to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expenses

Chairman and Managing Director

The role of the Chairman, Mr. Tan Sim Chew is separate from that of the Managing Director, Mr. Zhong Ma Ming. Such division of responsibilities allows a balance of power between the Board of Directors and the management of the Group, and ensures their independence and accountability.

The Chairman is the leader of the Board and he oversees the Board so that its acts in the best interests of the Group. The Chairman is responsible for deciding the agenda of each Board meeting, taking into account, where appropriate, matters proposed by other directors for inclusion in the agenda. The Chairman has overall responsibility for providing leadership, vision and direction in the development of the business of the Company.

The Managing Director, assisted by other executive directors and senior executives, is responsible for the day-to-day management of the business of the Group, attends to formulation and successful implementation of policies, and assumes full accountability to the Board for all operations of the Group. He ensures smooth operations and development of the Group and maintains continuing dialogue with the Chairman and all directors to keep them fully informed of all major business developments and issues. He is also responsible for building and maintaining an effective executive team to support him in his role.

BOARD COMMITTEES

To strengthen the functions of the Board and to enhance its expertise, there are two Board committees namely, the Audit Committee and Remuneration Committee formed under the Board, with each performing different functions.

Audit Committee

The Audit Committee comprises three INEDs.

The role and function of the Audit Committee include:–

– to serve as a focal point for communication between other Directors and the auditors in respect of the duties relating to financial and other reporting, internal controls, audits, and such other matters as the Board may determine from time to time.

– to assist the Board in fulfilling its responsibility by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Group and the adequacy of the audits.

– to review the appointment of auditors on an annual basis including the review of the audit scope and approval of the audit fees.

– to review the annual and interim financial statements prior to their approval by the Board, and recommend application of accounting policies and changes to the financial reporting requirements.

– to ensure continuing auditor objectivity and to safeguard independence of the Company's auditors.

Set out below is the summary of work done in year ended 30 June 2007:–

– to review of the financial statements for the year ended 30 June 2007 and for the six months ended 31 December 2006;

– to review of the auditors' statutory audit plan and the letters of representation; and

– to consider and approve the 2007 audit fees and audit work.

The Audit Committee held three meetings during the year. Details of individual attendance of its members are set out in the table below:–

Attendance of individual members at Audit Committee meetings for the year ended 30 June 2007

Number of meetings: 3

INEDs	
Wong Kwai Sang, Kays *(Chairman)*	3
Tsang Chun Pong	3
Li Chun Ming, Raymond	3

Remuneration Committee

The Board has established a Remuneration Committee, comprising three INEDs and Mr. Lo King Fat, Lawrence. The role and function of the Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the Executive Directors.

Set out below is the summary of work of the Remuneration Committee done for the year ended 30 June 2007: –

– to review of the remuneration policy for 2006/2007; and

– to review of the remuneration of the Executive Directors and the INEDs.

The Remuneration Committee held one meeting for the year ended 30 June 2007. Details of individual attendance of its members are set out in the table below:-

Attendance of individual members at Remuneration Committee meetings for the year ended 30 June 2007

Number of meetings: 1

Executive Director	
Lo King Fat, Lawrence *(Chairman)*	1
INEDs	
Wong Kwai Sang, Kays	1
Tsang Chun Pong	1
Li Chun Ming, Raymond	1

Other information

The Board of Directors has not established a nomination committee. According to the articles of association of the Company, the Board has the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. In assessing nomination of new directors, the Board will take into consideration of the nominee's qualification, ability and potential contributions to the Company. There was no change in directorship during the year ended 30 June 2007.

REVIEW OF SYSTEM OF INTERNAL CONTROL

The management of the Group has reviewed the effectiveness of the internal control and risk management systems of the Group for the year ended 30 June 2007 and submitted the findings and recommendations to the Audit Committee and the Board. The Audit Committee and the Board discussed such findings and agreed that the internal control procedures and risk management systems are in place within the key operating areas.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the codes of conduct regarding securities transactions by directors and by relevant employees (as defined in the Code). All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the year.

The Company has also established written guidelines regarding securities transaction on no less exacting terms of the Model Code for senior management and specific individual who may have access to price sensitive information in relation to the securities of the Company.

AUDITORS' REMUNERATION

During the year, the fees paid to the Company's Auditors, BDO McCable Lo Limited amounted to HK$950,000 and Ascenda Certified Public Accounts in PRC amounted to HK$70,000 in respect of audit services. No non-audit service was provided by the Company's Auditors during the year.

DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibilities in preparing the Financial Statements. The finance department of the Company is taken charge by the qualified accountant of the Company. With the assistance of the financial department, the directors ensure that the Group's financial statements have been properly prepared in accordance with relevant regulations and applicable accounting principles. The Statement of the Auditor about their reporting responsibilities on the Financial Statements is set out in the Auditor's Report on pages 22 to 23.

SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include annual general meeting, annual report, various notices, announcements and circulars. Procedure for voting by poll has been included in circular of the Company accompanying notice convening general meeting and has been read out by the chairman at the general meeting.

At the annual general meeting held on 15 December 2006, a separate resolution was proposed at the meeting by the chairman in respect of each separate issue, including re-election of Directors. The chairman of the Board and the chairman of the audit committee and remuneration committee attended the meetings to answer questions of shareholders.

The directors submit herewith their annual report together with the audited financial statements for the year ended 30 June 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are manufacturing, retailing, distribution of apparel, property development for sale and property investment.

An analysis of the Group's revenue and contribution to results of the Company and its subsidiaries (collectively referred to as the "Group") by business segments and geographical area of customers for the financial year is set out in note 5 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries at 30 June 2007 are set out in note 15 to the financial statements.

FINANCIAL STATEMENTS

The results of the Group for the year ended 30 June 2007 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 24 to 70.

DIVIDENDS AND RESERVES

The directors do not recommend the payment of any dividend for the year ended 30 June 2007 (2006: HK$Nil).

Movements in reserves during the year are set out in note 22 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's five largest customers combined did not exceed 30% of the Group's total turnover for the year ended 30 June 2007.

The Group's five largest suppliers combined did not exceed 30% of the Group's total purchases for the year ended 30 June 2007.

PROPERTY, PLANT AND EQUIPMENT

Details of changes in the property, plant and equipment during the year are set out in note 11 to the financial statements.

PROPERTIES UNDER DEVELOPMENT

A summary of major properties held for/under development is set out on page 71.

DIRECTORS

The directors during the financial year and up to date of this report were:

Executive directors

Tan Sim Chew, *Chairman*
Zhong Ma Ming, *Managing Director*
Fu Zi Cong
Lo King Fat, Lawrence

Independent non-executive directors

Wong Kwai Sang, Kays
Tsang Chun Pong
Li Chun Ming, Raymond

In accordance with the Company's Articles of Association, Mr. Lo King Fat, Lawrence, Mr. Wong Kwai Sang, Kays and Mr. Tsang Chun Pong shall retire by rotation from the board at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received annual confirmation from each of the independent non-executive directors concerning their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

The biographical details of directors are set out on pages 8 to 9.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

The service contracts of the three independent non-executive directors are: Mr. Wong Kwai Sang, Kays, Mr. Tsang Chun Pong and Mr. Li Chun Ming, Raymond for a term of 3 years commencing on 3 July 2005, 20 July 2005 and 29 September 2007. Their remuneration is HK$60,000 per annum subject to any adjustments as the board of directors may approve from time to time.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2007, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under 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") were as follows:

Long positions in shares in the Company

	Number of ordinary shares of HK$0.01 each *(Note)*	Percentage of total issued shares at 30 June 2007
Tan Sim Chew	275,065,226	16.82%
Fu Zi Cong	3,874,000	0.24%
Lo King Fat, Lawrence	3,300,000	0.20%

Note: These shares are held by the respective directors personally as beneficial owner.

Save as disclosed above, as at 30 June 2007, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation which have been recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The existing share option scheme of the Company was approved on 16 December 2005 ("Share Option Scheme"). The purpose of the Share Option Scheme is to provide the Group with a flexible means of giving incentive to, rewarding, remunerating, and/or providing benefits to the participant and to provide the participant with the opportunity to acquire a personal stake in the Group and to build common objectives of the Group and the participant for the betterment of business and profitability of the Group and its shareholders as a whole.

The Board may, at their discretion, invite any participant to take up options. An option is deemed to have been granted and accepted by the grantee upon his or her signing the duplicate letter comprising acceptance of the option and paying HK$1 by way of consideration for the grant thereof.

The subscription price for shares in the Company under the Share Option Scheme will be highest of (i) the closing price of the shares in the Company as stated in the Stock Exchange's daily quotations sheet on the offer date (which date must be a business day), (ii) a price being the average of the closing prices of the shares in the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date, and (iii) the nominal value of a share of the Company.

The total number of shares in the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in the Company in issue as at the date of approval of the Share Option Scheme. An option may be exercised during a period to be determined by the Directors in its absolute discretion and in any even such period shall not be longer than 10 years from the date upon which the option is granted.

The maximum entitlement for any one participant is that the total number of shares issued and to be issued upon exercise of the options granted to each participant under the Share Option Scheme in any 12-month period shall not exceed 1% of the total number of shares in issue of the Company. Any further grant of options in excess of the 1% limit shall be subject to shareholders' approval in general meeting with such participant and his or her associates abstaining from voting. The Share Option Scheme will remain in force for a period of 10 years from 16 December 2005.

Movement of share options during the year ended 30 June 2007 was as follows:–

Directors	**No. of options outstanding at 1 July 2006**	**No. of options exercised**	**No. of options outstanding at 30 June 2007**	**% of issued share capital at 30 June 2007**
Tan Sim Chew	13,300,000	13,300,000	–	–
Fu Zi Cong	13,300,000	13,300,000	–	–
Lo King Fat, Lawrence	13,300,000	13,300,000	–	–
Aggregate of employees	26,600,000	26,600,000	–	–

The above options were granted on 10 January 2006 and exercisable at a subscription price of HK$0.05 per share during the period from 11 July 2006 to 10 July 2009. Each option entitled its holder to subscribe for one share of HK$0.01 each in the Company. All the above options were exercised on 6 November 2006.

The closing price of the shares immediately before the date on which the above options were exercised was HK$0.055. During the year ended 30 June 2007, no share option was granted, cancelled or lapsed. There was no outstanding option as at 30 June 2007.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2007, the person having an interest in 5% or more of the issued share capital of the Company as recorded in the register of interest in shares and short positions required to be kept under section 336 of the Part XV of SFO was as follows:

	Number of ordinary shares interested	**Percentage of total issued shares**
Tan Sim Chew *(note 1)*	275,065,226	16.82%
Leader Symbol Holdings Limited *(note 2)*	169,442,477	10.36%
Ng Guek Keow *(note 2)*	169,442,477	10.36%

Notes:

1. These 275,065,226 shares are held by Mr. Tan Sim Chew personally.

2. These 169,442,477 shares were held by Leader Symbol Holdings Limited. Ms. Ng Guek Keow had 100% interest in Leader Symbol Holdings Limited and accordingly was deemed to have interest in these 169,442,477 shares.

Save as disclosed herein, no other person was recorded in the register of interests and short positions maintained under section 336 of Part XV of the SFO as having an interest of in 5% of more of the issued share capital of the Company as at 30 June 2007.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

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

Neither the Company nor its subsidiaries repurchased, sold or redeemed any of the Company's listed securities during the year.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 72.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association although there are no restrictions against such rights under Companies Law in the Cayman Islands.

PENSION SCHEMES

The Group implements the Mandatory Provident Fund scheme for its employees in Hong Kong, under which the Group is required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000.

For employees of certain subsidiaries who were employed via the Xiamen Labour Services Company ("XLSC"), the Group is required to pay monthly contributions, being a certain percentage of monthly payroll costs, for each employee to XLSC. The Group's other employees are required to participate in a central pension scheme operated by the local municipal government. The Group is required to contribute a certain percentage of their payroll costs to the central pension scheme.

Contributions paid in respect of retirement benefits for the year totaled HK$569,000 (2006: HK$429,000).

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

By Order of the Board

Tan Sim Chew
Chairman

Hong Kong, 12 October 2007

BDO McCabe Lo Limited
Certified Public Accountants

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永安中心八樓
電話:(八五二)二五四一 五〇四一
傳真:(八五二)二八一五 二二三九

TO THE SHAREHOLDERS OF BENEFUN INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Benefun International Holdings Limited set out on pages 24 to 70, which comprise the consolidated and Company balance sheets as at 30 June 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 30 June 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

BDO McCabe Lo Limited
Certified Public Accountants

Lee Ka Leung Daniel
Practising Certificate Number P01220
Hong Kong, 12 October 2007

Consolidated Income Statement

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

	Notes	**2007** **$'000**	2006 $'000
Turnover	4	**153,726**	219,447
Cost of sales		**(99,825)**	(148,522)
Gross Profit		**53,901**	70,925
Other income	4	**8,897**	16,242
Distribution costs		**(63,080)**	(62,426)
Administrative expenses		**(36,838)**	(29,760)
Loss from operations		**(37,120)**	(5,019)
Finance costs		**(1,595)**	(93)
Loss before income tax expense	6	**(38,715)**	(5,112)
Income tax credit/(expense)	7	**468**	(1,018)
Loss attributable to equity holders of the Company	9	**(38,247)**	(6,130)
Loss per share			
–Basic	10	**(2.66 cents)**	(0.46 cent)
–Diluted	10	**-**	–

As at 30 June 2007 (Expressed in Hong Kong dollars)

	Notes	2007 $'000	2006 $'000
Non-current assets			
Property, plant and equipment	11	**20,151**	59,811
Investment properties	12	**39,784**	–
Construction in progress	13	**1,272**	1,147
Interest in leasehold land held for own use under operating leases	14	**109**	1,176
Deferred tax assets	20	**36**	52
		61,352	62,186
Current assets			
Inventories	16	**27,771**	16,193
Trade and other receivables	17	**72,753**	55,050
Tax recoverable		**435**	–
Cash and cash equivalents		**20,416**	4,728
		121,375	75,971
Current liabilities			
Trade and other payables	18	**45,466**	31,006
Income tax payable		**–**	282
Other financial liabilities	19	**40,041**	–
		85,507	31,288
Net current assets		**35,868**	44,683
Total assets less current liabilities		**97,220**	106,869
Non-current liabilities			
Other financial liabilities	19	**–**	5,820
Deferred tax liabilities	20	**1,802**	1,539
		1,802	7,359
Net assets		**95,418**	99,510
Capital and reserves			
Share capital	21	**16,350**	13,319
Reserves	22	**79,068**	86,191
Total equity		**95,418**	99,510

On behalf of the Board

Tan Sim Chew
Chairman

Lo King Fat, Lawrence
Finance Director

Balance Sheet

As at 30 June 2007 (Expressed in Hong Kong dollars)

	Notes	2007 $'000	2006 $'000
Non-current assets			
Interests in subsidiaries	15	**35,704**	35,404
Current assets			
Trade and other receivables	17	**39,351**	19,821
Cash and cash equivalents		**3,045**	795
		42,396	20,616
Current liabilities			
Trade and other payables	18	**1,635**	2,533
Net current assets		**40,761**	18,083
Net assets		**76,465**	53,487
Capital and reserves			
Share capital	21	**16,350**	13,319
Reserves	22	**60,115**	40,168
Total equity		**76,465**	53,487

On behalf of the board

Tan Sim Chew
Chairman

Lo King Fat, Lawrence
Finance Director

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

	Issued share capital	Share premium	Share-based compensation reserve	Legal reserve	Foreign exchange revaluation reserve	Revaluation reserve	Accumulated losses	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 July 2005	13,319	128,529	–	3,090	1,643	21,069	(64,947)	102,703
Translation differences on overseas operations	–	–	–	–	1,291	–	–	1,291
Transfer between reserves	–	–	–	–	–	(1,864)	1,864	–
Equity settled share based transaction	–	–	1,646	–	–	–	–	1,646
Loss for the year	–	–	–	–	–	–	(6,130)	(6,130)
At 1 July 2006	13,319	128,529	1,646	3,090	2,934	19,205	(69,213)	99,510
Placing of new shares	3,031	–	–	–	–	–	–	3,031
Premium on placing of new shares	–	23,645	–	–	–	–	–	23,645
Translation differences on overseas operations	–	–	–	–	2,745	–	–	2,745
Transfer between reserves	–	1,646	(1,646)	–	–	(1,864)	1,864	–
Change in fair value of buildings	–	–	–	–	–	5,570	–	5,570
Deferred tax arising from change in valuation of buildings	–	–	–	–	–	(836)	–	(836)
Loss for the year	–	–	–	–	–	–	(38,247)	(38,247)
At 30 June 2007	16,350	153,820	–	3,090	5,679	22,075	(105,596)	95,418

Consolidated Cash Flow Statement

For the year ended 30 June 2007 (Expressed in Hong Kong dollars)

	2007 $'000	2006 $'000
Cash flows from operating activities		
Loss before income tax expense	**(38,715)**	(5,112)
Adjustments for:		
Interest income	**(150)**	(171)
Interest expense	**1,595**	93
Share-based payment expenses	**-**	1,646
Depreciation on property, plant and equipment	**9,410**	8,751
Amortisation on interest in leasehold land held for own use under operating leases	**147**	93
Impairment loss on inventories recognised/(reversed)	**3,305**	(7,593)
Impairment loss on trade and other receivables recognised/(reversed)	**6,631**	(278)
Net loss/(gain) on disposal of property, plant and equipment and construction in progress	**2,073**	(3,656)
Operating loss before working capital changes	**(15,704)**	(6,227)
(Increase)/decrease in inventories	**(14,883)**	18,637
Increase in trade and other receivables	**(10,989)**	(22,435)
Increase/(decrease) in trade and other payables	**14,460**	(20,130)
Cash used in operations	**(27,116)**	(30,155)
Income tax paid outside Hong Kong	**(822)**	(469)
Net cash used in operating activities	**(27,938)**	(30,624)
Cash flows from investing activities		
Payment for purchase of property, plant and equipment	**(740)**	(3,739)
Payment for construction in progress	**(3,080)**	(4,047)
Net proceeds from sale of property, plant and equipment	**477**	55
Net proceeds from sale of construction in progress	**414**	4,559
Interest received	**150**	171
Net cash used in investing activities	**(2,779)**	(3,001)
Cash flows from financing activities		
Proceeds from bank borrowings	**80,082**	5,820
Repayment of bank borrowings	**(45,861)**	(8,907)
Net proceeds from issuance of new shares	**13,331**	–
Interest paid	**(1,595)**	(93)
Net cash from/(used in) financing activities	**45,957**	(3,180)
Net increase/(decrease) in cash and cash equivalents	**15,240**	(36,805)
Effect of foreign exchange changes	**448**	176
Cash and cash equivalents at beginning of year	**4,728**	41,357
Cash and cash equivalents at end of year	**20,416**	4,728
Analysis of the balances of cash and cash equivalents:		
Cash at banks and in hand	**20,416**	4,728

(Expressed in Hong Kong dollars)

1. CORPORATE INFORMATION

Benefun International Holdings Limited ("the Company") is a public company incorporated in the Cayman Islands with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Singapore Exchange Limited. Its registered office is at Ugland House, South Church Street, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies and principle place of business is at 1-18 Xinhe Industrial Park, Dianqian, Huli, Xiamen, the People's Republic of China ("PRC"). The Company is an investment holding company. The Company and its subsidiaries are hereinafter collectively referred to as the "Group". The principal activities of the Company's subsidiaries are manufacturing, retailing and distribution of apparel and property development for sale and property investment.

The consolidated financial statements are presented in Hong Kong dollar ("$"), which is the Company's functional and presentation currency.

Items included in the financial statements of each of the subsidiaries are measured using the currency of the primary economic environment in which the subsidiaries operate (the "functional currency").

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

(a) In the current year, the Group has applied all the new and revised standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), that are relevant to its operation and effective for accounting period beginning on 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented.

(b) Potential impact arising on the new accounting standards not yet effective

The Group has not yet applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipated that the application of these new standards, amendment or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 Amendment	Capital Disclosures [5]
HKAS 23(Revised)	Borrowing Costs [1]
HKFRS 7	Financial instruments: Disclosures [5]
HKFRS 8	Operating Segments [1]
HK(IFRIC) – Interpretation 10	Interim Financial Reporting and Impairment [6]
HK(IFRIC) – Interpretation 11	Group and Treasury Share transactions [4]
HK(IFRIC) – Interpretation 12	Service Concession Arrangements [3]
HK(IFRIC) – Interpretation 13	Customer Loyalty Programmes [2]
HK(IFRIC) – Interpretation 14	HKAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [3]

(Expressed in Hong Kong dollars)

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(b) Potential impact arising on the new accounting standards not yet effective *(Continued)*

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 July 2008

[3] Effective for annual periods beginning on or after 1 January 2008

[4] Effective for annual periods beginning on or after 1 March 2007

[5] Effective for annual periods beginning on or after 1 January 2007

[6] Effective for annual periods beginning on or after 1 November 2006

3. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and by the Hong Kong Companies Ordinance.

(b) Basis of preparation

The financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at fair values or revalued amounts as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 27.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Group as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full in preparing the consolidated financial statements.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition.

The Company's interests in subsidiaries are stated at cost less impairment loss, if any.

(d) Subsidiaries

A subsidiary is an entity in which the Company is able to exercise its control on it. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated income statement.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Goodwill *(Continued)*

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

(f) Impairment of other assets

At each balance sheet date, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- interests in leasehold land held for own use under operating leases;
- investments in subsidiaries; and
- construction in progress

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that other HKFRS.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Financial instruments

(i) Financial assets

The Group classifies its financial assets as loans and receivables. These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(ii) Financial liabilities

The Group classifies its financial liabilities as trade and other financial liabilities depending on the purchase for which the liabilities were incurred. Trade and other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

- Bank borrowings, which are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Financial instruments *(Continued)*

(iii) Derecognition

The Group derecognises a financial asset where the contractual rights to the future cash flows in relation to the investment expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(h) Property, plant and equipment

The building component of owner-occupied leasehold properties are stated at valuation less accumulated depreciation. Fair value is determined by the directors based on independent valuations which are performed periodically. The valuations are on the basis of market value or depreciated replacement cost. The directors review the carrying value of the buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter charged to the income statement. Any subsequent increases are credited to the income statement up to the amount previously charged and thereafter to revaluation reserve.

Upon disposal of leasehold buildings, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the revaluation reserve to retained earnings.

Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment are depreciated at rates sufficient to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives and residual value are reviewed, and adjusted if appropriate, at each balance sheet date. The estimated useful lives are as follows:

Buildings	The shorter of 20 years or the remaining terms of the leases
Leasehold improvements	3 years
Plant and machinery	10 years
Furniture fixtures and office equipment	3 to 5 years
Motor vehicles	3 to 5 years

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Property, plant and equipment *(Continued)*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenances costs are charged to the income statement during the year in which they are incurred.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of a fixed asset other than building is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement on disposal.

(i) Investment properties

Investment properties are properties held for long-term rental yields or for capital appreciation and not occupied by the Group. Investment properties are carried at fair value, representing market value determined by directors or independent qualified valuer at each balance sheet date. Changes in fair value are recognised in the income statement.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as revaluation of properties, plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Construction in progress

Construction in progress is stated at cost less accumulated impairment losses. Cost comprises direct costs of construction during the periods of construction and installation. Construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress.

(k) Interests in leasehold land held for own use under operating leases

Interests in leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis to the income statement.

(l) Inventories

Apparel Manufacturing

Inventories are stated at the lower of cost and net realisable value.

For self-manufactured inventories, cost includes the cost of materials computed using the standard costing basis and, in the case of work in progress and finished goods, direct labour and an appropriate portion of production overheads. Finished goods purchased are stated at cost computed on a weighted average basis.

Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business after the balance sheet date or to management estimates based on prevailing market conditions less estimated costs of completion and estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Properties under development

Properties under development comprise land cost, construction costs, interest and other direct costs attributable to such properties, less impairment losses, if any.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 3(h) above. Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 3(n) below.

Operating lease charges

Payments made under operating lease are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(n) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

Sale of goods

Revenue from sales of goods is recognised when goods are delivered and title of goods has been passed to customers.

Sale of properties

Revenue arising from properties held for sale is recognised upon the signing of the sale and purchase agreements or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under trade and other payables.

(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Revenue recognition *(Continued)*

Rental income from operating leases

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

Sub-contracting fee income

Sub-contracting fee income is recognised in the income statement in the period in which services are rendered.

Franchising fee

Revenue from franchising fee is recognised in the income statement over the accounting periods covered by the term of the relevant agreements.

Interest income

Interest income is accrued on a time-apportioned basis on the principal outstanding and the rate applicable.

(o) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Income taxes *(Continued)*

Income taxes are recognised in the income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

(p) Foreign currency

Transactions entered into by Group entities in currencies other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

On consolidation, the results of foreign operations are translated into the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rate approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve"). Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Pension schemes

As stipulated by the labour regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at a specified percentage of the eligible employees' salaries. The Group has no other obligation for the payment of its employees' retirement and other post-retirement benefits other than contributions described above.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined contribution retirement plans as mentioned above. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. The Group employer contributions vest fully with the employees when contributed into the MPF Scheme.

(r) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are expended when incurred.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

(t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(Expressed in Hong Kong dollars)

4. TURNOVER AND OTHER INCOME

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for goods returned and trade discounts and income from leasing and sales of property.

An analysis of turnover and other income are as follows:

	2007	2006
	$'000	*$'000*
Turnover		
Manufacturing, retailing and trading of apparel	**150,311**	214,308
Gross proceeds from properties sold	**-**	5,139
Rental income	**3,415**	–
	153,726	219,447
Other income		
Interest income	**150**	171
Rental income	**-**	2,348
Sub-contracting fees	**5,446**	5,696
Gain on disposal of construction in progress	**-**	3,797
Franchising fees	**1,246**	2,955
Others	**2,055**	1,275
	8,897	16,242
Total income for the year	**162,623**	235,689

5. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments.

Business segments

The Group has the following main business segments:

Apparel manufacturing:	Manufacturing, retailing and distribution of apparel
Property development:	The development and sale of commercial and residential properties
Property rental:	Leasing of property rental

5. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

An analysis of the Group's revenue, results, assets, liabilities and other financial information by business segments for the year ended 30 June 2007, together with the comparative figures for the corresponding period in 2006, is as follows:

	Apparel manufacturing		Property rental		Property development		Consolidated	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Segment revenue:								
Turnover	150,311	214,308	3,415	-	-	5,139	153,726	219,447
Other income	8,747	16,071	-	-	-	-	8,747	16,071
Total segment revenue	159,058	230,379	3,415	-	-	5,139	162,473	235,518
Interest income and other unallocated income							150	171
Total revenue							162,623	235,689
Segment results	(32,582)	(76)	3,415	-	(5,647)	(175)	(34,814)	(251)
Unallocated results							(2,456)	(4,939)
Interest and other unallocated Income							150	171
Loss from operations							(37,120)	(5,019)
Finance cost							(1,595)	(93)
Loss before income tax expense							(38,715)	(5,112)
Income tax credit/(expense)							468	(1,018)
Loss attributable to the shareholders							(38,247)	(6,130)
Segment assets	68,873	114,051	39,914	-	56,028	23,054	164,815	137,105
Unallocated assets							17,912	1,052
Total assets							182,727	138,157
Segment liabilities	53,162	26,871	3,839	-	30,121	7,057	87,122	33,928
Unallocated liabilities							187	4,719
Total liabilities							87,309	38,647
Other segment information:								
Depreciation and amortisation	9,530	8,817	-	-	27	27	9,557	8,844
Impairment loss on inventories recognised/(reversed)	3,305	(7,593)	-	-	-	-	3,305	(7,593)
Impairment loss on trade and other receivables recognised/(reversed)	2,524	(278)	-	-	4,107	-	6,631	(278)
Capital expenditure incurred during the year	3,815	7,739	-	-	5	47	3,820	7,786

(Expressed in Hong Kong dollars)

5. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

The Group comprises the following main geographic segments:

	Mainland China		Hong Kong		Unallocated		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Turnover from external customers	**153,726**	217,223	**-**	2,224	**-**	–	**153,726**	219,447
Segment assets	**164,850**	136,577	**17,841**	1,528	**36**	52	**182,727**	138,157
Capital expenditure								
– property, plant and equipment	**740**	3,739	**-**	–	**-**	–	**740**	3,739
– construction in progress	**3,080**	4,047	**-**	–	**-**	–	**3,080**	4,047
	3,820	7,786	**-**	–	**-**	–	**3,820**	7,786

6. LOSS BEFORE INCOME TAX EXPENSE

Loss before income tax expense is arrived at after charging/(crediting):

	2007	2006
	$'000	$'000
Staff costs (including directors):		
Defined contribution pension cost	390	429
Share based payment expense	-	1,646
Salaries, wages and other benefits	39,497	44,896
	39,887	46,971
Other items:		
Depreciation on property, plant and equipment	9,410	8,751
Amortisation on interests in leasehold land held for own use under operating leases	147	93
Cost of inventories sold	96,520	156,115
Write-down (Reversal of write-down) of inventories	3,305	(7,593)
Auditors' remuneration	1,020	788
Minimum lease payments under operating leases		
– Property rentals (including retail shops)	17,850	16,209
– Contingent rentals of retail shops	15,296	17,565
Net loss/(gain) on disposal of property, plant and equipment and construction in progress	2,073	(3,656)
Exchange differences, net	(1,755)	(414)
Impairment loss on trade and other receivables recognised/(reversed)	6,631	(278)
Finance costs:		
Interest on bank advances and other financial liabilities repayable within five years	1,595	93

(Expressed in Hong Kong dollars)

7. INCOME TAX CREDIT/(EXPENSE)

The amount of taxation in the consolidated income statement represents:

	2007	2006
	$'000	*$'000*
Current tax outside Hong Kong		
Provision for the year	**89**	825
Deferred tax *(note 20)*	**(557)**	193
Total income tax (credit)/expense	**(468)**	1,018

No provision for Hong Kong Profits Tax has been made in the financial statements (2006: Nil) as the Group's Hong Kong operations sustained a loss for taxation purposes during the year.

Taxation for the Group's operations outside Hong Kong is provided at the applicable current rates of taxation on the estimated assessable profits arising in the relevant jurisdiction during the year.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("the New Corporate Income Tax Law") which will take effect on 1 January 2008. The applicable income tax rate of the Group's PRC subsidiaries is 15%. From 1 January 2008, the income tax rate is expected to gradually increase to the standard rate of 25% over a five-year transition period. However, the New Corporate Income Tax Law has not set out the details as to how the existing tax rate will gradually increase to the standard rate of 25%. Consequently, the Group is not able to make an estimate of the expected financial effect of the New Corporate Income Tax Law on its deferred tax assets and liabilities. The expected financial effect of the New Corporate Income Tax Law, if any, will be reflected in the Group's financial statements for the year ending 30 June 2008. The enactment of the New Corporate Income Tax Law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

7. INCOME TAX CREDIT/(EXPENSE) *(Continued)*

A reconciliation between income tax credit/expense and loss per the consolidated income statement at applicable tax rate is as follows:

	2007	2006
	$'000	*$'000*
Loss before income tax expense	**(38,715)**	(5,112)
Tax calculated at applicable PRC tax rate of 15% (2006: 15%)	**(5,807)**	(767)
Effect of different tax rates of group companies operating in different jurisdictions	**1,401**	866
Tax effect of non-deductible expenses	**2,266**	919
Tax effect of tax loss not recognised	**1,672**	–
Total income tax (credit)/expense	**(468)**	1,018

(Expressed in Hong Kong dollars)

8. DIRECTORS' REMUNERATION

(a) Directors' emoluments

The remuneration of each Director for the year ended 30 June 2007 is set out below:

Name of director	Fees $'000	Salary $'000	Share based payments $'000	Other benefits $'000	Employer's contribution to pension scheme $'000	Total $'000
Executive directors						
Mr. Tan Sim Chew	-	650	-	-	-	650
Mr. Fu Zi Cong	-	397	-	-	-	397
Mr. Lo King Fat	-	559	-	12	12	583
Mr. Zhong Ma Ming	-	406	-	-	-	406
Independent non-executive directors						
Mr. Wong Kwai Sang	60	-	-	-	-	60
Mr. Tsang Chun Pong	60	-	-	-	-	60
Mr. Li Chun Ming	60	-	-	-	-	60
	180	2,012	-	12	12	2,216

8. DIRECTORS' REMUNERATION *(Continued)*

(a) Directors' emoluments *(Continued)*

The remuneration of each director for the year ended 30 June 2006 is set out below:

Name of director	Fees	Salary	Share based payments	Other benefits	Employer's contribution to pension scheme	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Executive directors						
Mr. Tan Sim Chew	–	650	345	–	–	995
Ms. Chen Miao Zhu	–	425	–	–	–	425
Mr. Fu Zi Cong	–	397	345	–	–	742
Mr. Lo King Fat	–	559	345	29	12	945
Mr. Zhong Ma Ming	–	129	–	–	–	129
Independent non-executive directors						
Mr. Wong Kwai Sang	60	–	–	–	–	60
Mr. Tsang Chun Pong	60	–	–	–	–	60
Mr. Li Chun Ming	60	–	–	–	–	60
	180	2,160	1,035	29	12	3,416

During both years, no emolument were paid to directors as an inducement to join the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any emoluments during both years.

(Expressed in Hong Kong dollars)

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Five highest paid individuals

Of the five individuals with the highest emoluments, four (2006: four) are directors of the Company whose emoluments are disclosed in note 8(a). The details of the emoluments in respect of the remaining one (2006: one) individual are as follows:

	2007	2006
	$'000	*$'000*
Salaries and other emoluments	**646**	382
Share based payments	**-**	305
Retirement scheme contributions	**-**	12
	646	699

The emoluments of the individual with the highest emoluments are within the following band:

	2007	2006
	Number of Individuals	*Number of individuals*
$		
Nil – 1,000,000	**1**	1

9. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company includes a loss of $3,698,000 (2006: $4,889,000) which has been dealt with in the financial statements of the Company.

10. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders of $38,247,000 (2006: $6,130,000) divided by the weighted average of 1,439,991,000 ordinary shares (2006: 1,331,929,000 ordinary shares) in issue during the year. Diluted figures are not shown as there is no dilutive effect for the years ended 30 June 2006 and 2007.

11. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost or valuation						
At 1 July 2006	70,304	21,104	20,692	9,706	9,189	130,995
Exchange difference	1,548	1,235	1,051	568	414	4,816
Additions	–	–	28	421	291	740
Disposals	–	–	(6,638)	(121)	(172)	(6,931)
Surplus on revaluation	5,570	–	–	–	–	5,570
Transfer to investment properties *(note 12)*	(69,680)	–	–	–	–	(69,680)
Transfer from construction in progress *(note 13)*	–	2,608	–	–	–	2,608
At 30 June 2007	7,742	24,947	15,133	10,574	9,722	68,118
Representing:						
Cost	1,098	24,947	12,397	10,574	7,610	56,626
Valuation						
– 1994	–	–	2,736	–	2,112	4,848
– 2007	6,644	–	–	–	–	6,644
At 30 June 2007	7,742	24,947	15,133	10,574	9,722	68,118
Accumulated depreciation and impairment						
At 1 July 2006	30,256	15,456	11,212	6,913	7,347	71,184
Exchange difference	552	898	496	407	285	2,638
Charge for the year	3,508	3,181	1,418	703	600	9,410
Eliminated on disposals	–	–	(4,118)	(108)	(155)	(4,381)
Transfer to investment properties *(note 12)*	(30,884)	–	–	–	–	(30,884)
At 30 June 2007	3,432	19,535	9,008	7,915	8,077	47,967

(Expressed in Hong Kong dollars)

11. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group

	Buildings $'000	Leasehold improvements $'000	Plant and machinery $'000	Furniture, fixtures and office equipment $'000	Motor vehicles $'000	Total $'000
Cost or valuation						
At 1 July 2005	69,339	15,631	19,198	8,598	8,535	121,301
Exchange difference	742	455	479	250	187	2,113
Additions	–	32	2,382	858	467	3,739
Disposals	–	–	(1,367)	–	–	(1,367)
Transfer from construction in progress *(note 13)*	223	4,986	–	–	–	5,209
At 30 June 2006	70,304	21,104	20,692	9,706	9,189	130,995
Representing:						
Cost	12,856	21,104	17,956	9,706	7,077	68,699
Valuation						
– 1994	–	–	2,736	–	2,112	4,848
– 2005	57,448	–	–	–	–	57,448
At 30 June 2006	70,304	21,104	20,692	9,706	9,189	130,995
Accumulated depreciation and impairment						
At 1 July 2005	26,594	12,481	10,715	6,020	6,673	62,483
Exchange difference	232	360	232	175	123	1,122
Charge for the year	3,430	2,615	1,437	718	551	8,751
Eliminated on disposals	–	–	(1,172)	–	–	(1,172)
At 30 June 2006	30,256	15,456	11,212	6,913	7,347	71,184
Net book value						
At 30 June 2007	4,310	5,412	6,125	2,659	1,645	20,151
At 30 June 2006	40,048	5,648	9,480	2,793	1,842	59,811

11. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

i) Buildings of the Group as at 30 June 2007 were revalued by directors by reference to observable prices in an active market or recent market transactions on arm's length terms after taking into account a valuation report as at 30 September 2007 prepared by Xiamen TongJian Land and Property Valuation Consultant Company Limited, a firm of valuers registered in the PRC. The valuations are on the basis of open market value or depreciated replacement cost. Depreciated replacement cost is used where open market value cannot be reliably allocated to the building component.

The carrying amount of the buildings of the Group at 30 June 2007 would have been approximately $1,098,000 (2006: $17,028,000) had the buildings been carried at cost less accumulated depreciation and accumulated impairment losses.

ii) Certain plant and machinery and motor vehicles that have been fully depreciated were valued by China Certified Accountant and Financial Management, a firm of valuers registered in the PRC at 30 April 1994. The valuation was carried out on a depreciated replacement cost basis.

These assets would have been fully depreciated at 30 June 2000 had they been carried at cost less accumulated depreciation.

12. INVESTMENT PROPERTIES

	Group	
	2007	2006
	$'000	*$'000*
FAIR VALUE		–
Transfer from property, plant and equipment *(note 11)*	**38,796**	–
Transfer from interest in leasehold land held for own use under operating leases *(note 14)*	**988**	–
At end of year	**39,784**	–

(Expressed in Hong Kong dollars)

12. INVESTMENT PROPERTIES *(Continued)*

(a) The Group's investment properties were held under medium-term leases and outside Hong Kong which were revalued by directors after taking into account a valuation report prepared on an open market value basis on 30 September 2007 by Xiamen TongJian Land and Property Valuation Consultant Company Limited, a firm of valuers registered in the PRC.

(b) Investment properties are pledged to bank to secure a bank loan granted to the Group (note 19).

(c) Gross rental income from investment properties amounted to $3,415,000 (2006: $Nil).

13. CONSTRUCTION IN PROGRESS

	Group	
	2007	2006
	$'000	*$'000*
At 1 July	**1,147**	2,986
Exchange adjustments	**67**	87
Additions	**3,080**	4,047
Transfer to property, plant and equipment *(note 11)*	**(2,608)**	(5,209)
Disposal	**(414)**	(764)
At 30 June	**1,272**	1,147

14. INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

The Group's interests in leasehold land held for own use under operating leases comprise:

	Group	
	2007	2006
	$'000	*$'000*
Held under medium-term leases:		
Outside Hong Kong	**109**	1,176

A substantial portion of interest in leasehold land were transferred to investment properties as the Group has leased out the properties for long-term rental yields.

15. INTERESTS IN SUBSIDIARIES

	Group	
	2007	2006
	$'000	*$'000*
Unlisted shares and equity interest at cost	**192,310**	192,010
Less: Impairment loss	**(156,606)**	(156,606)
	35,704	35,404

Details of the subsidiaries are as follows. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment and operation	Percentage of equity held by the Company	Percentage of equity held by subsidiaries	Particulars of issued/registered and paid up capital	Principal activity
Fun (Xiamen) Enterprise Corporation Limited*	PRC	–	100	Singapore Dollar ("S$")15,300,000	Garment manufacturing and retailing
Anxi Sing Garments Company Limited *	PRC	–	100	$3,380,000	Deregistered during the year
Anxi Fenfa Enterprise Company Limited*	PRC	–	100	S$1,000,000	Deregistered in 2006
Benefun (BVI) Limited	British Virgin Islands ("BVI")	100	–	1 share of US$1	Investment holding
Wylkeen Investment Limited	BVI	100	–	1 share of US$1	Investment holding
Wingo Asia Limited	BVI	–	100	1 share of US$1	Garment distribution

(Expressed in Hong Kong dollars)

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Percentage of equity held by the Company	Percentage of equity held by subsidiaries	Particulars of issued/registered and paid up capital	Principal activity
Zhangzhou Golden River Estate Development Co. Ltd. *	PRC	100	–	RMB13,300,000	Property development
Zhangzhou City Gao Hui Property Development Company Limited #	PRC	–	100	RMB3,280,000	Property development
Top Ace Enterprises Limited	Hong Kong	–	100	2 shares of $1 each	Provision of management services
Sichuan Fun Garments Company Limited #	PRC	100	–	RMB300,000	Garment distribution

* *Companies registered as wholly-foreign owned enterprises with limited liability in the PRC.*

\# *A company registered as a domestic enterprise with limited liability in the PRC.*

16. INVENTORIES

	Group 2007 $'000	Group 2006 $'000
Apparel manufacturing		
Raw materials	**7,269**	5,654
Work in progress	**9**	2,419
Finished goods	**3,605**	1,231
	10,883	9,304
Property development		
Properties under development	**16,888**	6,889
	27,771	16,193

The amount of properties under development expected to be recovered after more than one year is $16,888,000 (2006: $6,889,000). All other inventories are expected to be recovered within one year.

17. TRADE AND OTHER RECEIVABLES

	Group 2007 $'000	Group 2006 $'000	Company 2007 $'000	Company 2006 $'000
Trade debtors	**8,870**	11,011	**-**	–
Prepayments, deposits and other receivables	**50,538**	44,039	**99**	99
Receivable from placing of new shares	**13,345**	–	**13,345**	–
Amounts due from subsidiaries	**-**	–	**25,907**	19,722
	72,753	55,050	**39,351**	19,821

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

(Expressed in Hong Kong dollars)

17. TRADE AND OTHER RECEIVABLES *(Continued)*

Included in the trade and other receivables are trade debtors (net of impairment loss) with the following ageing analysis:

	Group	
	2007	2006
	$'000	*$'000*
Within 1 month	**2,145**	2,491
1 to 3 months	**2,185**	1,333
More than 3 months but less than 12 months	**2,862**	6,468
Over 12 months	**1,678**	719
Total trade debtors	**8,870**	11,011

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

During the year, the Group commenced certain property development projects for resale. As at the balance sheet date, included in the balance of prepayments, deposits and other receivables was an aggregate balance of deposits and instalments of $19,208,000 (2006: $15,686,000) for the acquisition of certain land use rights in Zhangzhou City, the PRC in respect of the aforesaid projects.

18. TRADE AND OTHER PAYABLES

	Group		Company	
	2007	2006	**2007**	2006
	$'000	*$'000*	***$'000***	*$'000*
Trade creditors	**10,367**	15,952	**-**	–
Property forward sales deposits and instalments received	**16,353**	–	**-**	–
Other payable and accrued liabilities	**18,746**	15,054	**1,635**	2,533
	45,466	31,006	**1,635**	2,533

Included in the trade and other payables are trade creditors with the following ageing analysis:

	2007	2006
	$'000	*$'000*
Within 1 month or on demand	**7,238**	11,847
1 to 3 months	**197**	57
More than 3 months but within 6 months	**58**	35
Over 6 months	**2,874**	4,013
Total trade creditors	**10,367**	15,952

(Expressed in Hong Kong dollars)

19. OTHER FINANCIAL LIABILITIES

	Group	
	2007	2006
	$'000	*$'000*
Interest bearing:		
Secured – bank loans	**40,041**	5,820

At 30 June 2007, total current and non-current bank loans and other borrowings were repayable as follows:

	2007	2006
	$'000	*$'000*
Within one year	**40,041**	–
Within two to five years	**-**	5,820
	40,041	5,820

The bank loans are interest-bearing at 6.02% (2006: 6.22%) and secured by the Group's interest in leasehold land included in inventories under the category of properties under development with an aggregate carrying value of $16,888,000 and the Group's investment properties (note 12) and interest in leasehold land held for own use under operating leases (note 14) with aggregate carrying value of $37,600,000 (2006: secured by the Group's interest in leasehold land and building with aggregate carrying value of $6,889,000).

20. DEFERRED TAX

Group

The components of deferred tax assets and liabilities recognised in the consolidated balance sheet and the movement during the year are as follows:

Deferred tax assets/(liabilities)	**Revaluation of properties** *$'000*	**Provision for inventories and receivables** *$'000*	**Accelerated (depreciation allowances)/ accounting depreciation** *$'000*	**Other temporary differences** *$'000*	**Total** *$'000*
As at 1 July 2005	(3,718)	4,620	912	(3,108)	(1,294)
(Charged)/credited to income statement	328	(703)	(251)	433	(193)
As at 30 June 2006	(3,390)	3,917	661	(2,675)	(1,487)
(Charged)/credited to income statement	328	955	306	(1,032)	557
(Charged) to equity	(836)	–	–	–	(836)
As at 30 June 2007	(3,898)	4,872	967	(3,707)	(1,766)

	2007 *$'000*	2006 *$'000*
Analysis of deferred tax balances for financial reporting purposes:		
Net deferred tax asset recognised on the balance sheet	**36**	52
Net deferred tax liability recognised on the balance sheet	**(1,802)**	(1,539)
	(1,766)	(1,487)

(Expressed in Hong Kong dollars)

21. SHARE CAPITAL

	2007		2006	
	Number of shares	**$'000**	Number of shares	$'000
Authorised				
Ordinary shares of $0.01 each	**10,000,000,000**	**100,000**	10,000,000,000	100,000
Issued and fully paid				
At 1 July	**1,331,929,000**	**13,319**	1,331,929,000	13,319
Issue of new shares	**303,100,000**	**3,031**	–	–
At 30 June	**1,635,029,000**	**16,350**	1,331,929,000	13,319

Exercise of share options

On 10 January 2006, the Company granted in total 66,500,000 share options to three executive directors and 2 senior executives of 13,300,000 share options each at a subscription price of HK$0.05 per share. Each share option entitles the holder to subscribe for one share of HK$0.01 each in the Company.

On 6 November 2006, all share options were exercised by the five grantees and no option is outstanding at 30 June 2007.

Issue of new shares

Pursuant to the share subscription agreement dated 6 February 2007, 151,600,000 new ordinary shares of $0.01 each, rank pari passu with the existing shares in the Company were issued to a subscriber, Leader Symbol Holdings Limited, for cash consideration at a subscription price of HK$0.066 each. The closing market price was HK$0.08 per share as quoted on the Stock Exchange on 6 February 2007.

Pursuant to another share subscription agreement dated 11 June 2007, 85,000,000 new ordinary shares of $0.01 each, rank pari passu with the existing shares in the Company were issued to two subscribers for cash consideration at a subscription price of HK$0.157 each. The closing market price was HK$0.195 per share as quoted on the Stock Exchange on the last trading date 8 June 2007.

22. RESERVES

(a) Group

	Share premium $'000 (Note i)	Share-based compensation reserve $'000 (Note ii)	Legal reserve $'000 (Note iii)	Foreign exchange revaluation reserve $'000 (Note iv)	Revaluation reserve $'000 (Note iv)	Accumulated losses $'000	Total $'000
At 1 July 2005	128,529	–	3,090	1,643	21,069	(64,947)	89,384
Translation differences on overseas operations	–	–	–	1,291	–	–	1,291
Transfer between reserves	–	–	–	–	(1,864)	1,864	–
Equity settled share based transaction	–	1,646	–	–	–	–	1,646
Loss for the year	–	–	–	–	–	(6,130)	(6,130)
At 1 July 2006	128,529	1,646	3,090	2,934	19,205	(69,213)	86,191
Premium on placing of new shares	23,645	–	–	–	–	–	23,645
Translation differences on overseas operations	–	–	–	2,745	–	–	2,745
Transfer between reserves	1,646	(1,646)	–	–	(1,864)	1,864	–
Change in fair value of buildings	–	–	–	–	5,570	–	5,570
Deferred tax arising from change in valuation of buildings	–	–	–	–	(836)	–	(836)
Loss for the year	–	–	–	–	–	(38,247)	(38,247)
At 30 June 2007	153,820	–	3,090	5,679	22,075	(105,596)	79,068

(Expressed in Hong Kong dollars)

22. RESERVES *(Continued)*

(b) Company

	Share premium $'000 (Note i)	Share-based compensation reserve $'000 (Note ii)	Contributed surplus $'000 (Note v)	Accumulated losses $'000	Total $'000
At 1 July 2005	128,529	–	65,261	(150,379)	43,411
Loss for the year	–	–	–	(4,889)	(4,889)
Equity settled share based transaction	–	1,646	–	–	1,646
At 1 July 2006	128,529	1,646	65,261	(155,268)	40,168
Premium on placing of new shares	23,645	–	–	–	23,645
Transfer between reserves	1,646	(1,646)	–	–	–
Loss for the year	–	–	–	(3,698)	(3,698)
At 30 June 2007	153,820	–	65,261	(158,966)	60,115

Notes:

(i) Under the Bye-Laws of the Company, the amount is distributable subject to certain restrictions.

(ii) Cumulative expenses recognised in writing off the fair value of share options granted to the employees over the vesting period.

(iii) According to the relevant enterprises regulations in the PRC, certain subsidiaries which are foreign investment enterprises are required to transfer at least 10% of their profit after taxation, as determined under accounting principles generally accepted in the PRC, to the legal reserve until the balance reaches 50% of their registered capital. The legal reserve can be used to make good losses and to increase the capital of the subsidiaries.

(iv) The foreign exchange revaluation reserve and revaluation reserve have been set up and dealt with in accordance with the accounting policies adopted for the revaluation of property, plant and equipment and translation of the financial statements of foreign subsidiaries as set out in note 3. The transfer from revaluation reserve to accumulated loss in income statement represents the reserve realised on the retirement or disposal of the revalued assets and the additional depreciation made during the year.

(v) The excess value of the shares in the subsidiaries acquired pursuant to the Group reorganisation scheme over the nominal value of the shares in the Company issued in exchange of $65,261,000 was credited to the contributed surplus account. Under the Bye-Laws of the Company, contributed surplus is distributable subject to certain restrictions.

23. EQUITY SETTLED SHARE-BASED TRANSACTIONS

Share option scheme

On 16 August 2005, the Company granted in total 78,000,000 share options for a total consideration of $6 to 4 executive directors and 2 senior executives at an exercise price of $0.058 per share under the share option scheme, which adopted by the Company on 5 May 1997 (hereinafter referred as "Old Share Option Scheme"). All these share options are exercisable on or after 17 February 2006 and will expire on 16 February 2009.

Pursuant to an ordinary resolution passed on 16 December 2005, the Shareholders at the Extraordinary General Meeting approved to terminate the Old Share Option Scheme which was superseded by a new share option scheme (hereinafter referred as "New Share Option Scheme") for employees. Pursuant to the mutual agreement with the grantees and aforesaid ordinary resolution, all outstanding share options were cancelled accordingly. The New Share Option Scheme is valid and effective for a period of 10 years from the date of adoption.

Pursuant to the New Share Option Scheme, any grant of options to a participant who is a director, chief executive or substantial shareholder of the Company or their respective associates must be approved by the independent non-executive directors of the Company (excluding independent non-executive director who is the Grantee).

If the Board proposes to grant any option to a participant who is a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including option exercised, cancelled and outstanding) to him or her in the 12-month period up to and including the date of such grant:

(i) representing in aggregate more than 0.1% of the total number of Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of $5,000,000.

Such proposed grant of options must be approved by the shareholders of the Company in general meeting with all connected persons (with the meaning as ascribed under the Listing Rules) of the Company abstain from voting (except where any connected person may vote against the relevant resolution). In such case, the Company shall send a circular to its shareholders containing all those terms as required under the Listing Rules. Any vote taken at the meeting to approve the grant of such options must be taken on a poll.

(Expressed in Hong Kong dollars)

23. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

Share option scheme *(Continued)*

The directors may, at their discretion, invite any employees or directors of the Group, to take up options to subscribe for shares in the Company at a price to be determined by the Board and notified to a Participant and shall at least the highest of:–

(i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date on which an Offer is made to a Participant, which must be a Business Day ("Offer Date");

(ii) a price being the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 Business Days immediately preceding the Offer Date; and

(iii) the nominal value of a Share.

The total number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other Share Option Scheme of the Company shall not in aggregate exceed 10% of the total number of Shares in issue as at the date of approval of the New Share Option Scheme unless the Company obtains a fresh approval from its Shareholders.

On 10 January 2006, the directors approved to grant share options with a total of 79,800,000 shares to employees of the Company (including 53,200,000 shares granted to the executive directors of the Company, being also employees of the Company) at a subscription price of HK$0.05 per share under the New Share Option Scheme. Except one of the executive directors, all grantees accepted the grant of share options.

On 6 November 2006, all share options were exercised by the five grantees and no option is outstanding at 30 June 2007.

Except for the afore-mentioned, no share option were granted, exercised, cancelled or lapsed during the year.

23. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

The number and weighted average exercise prices of share options are as follows:

	2007 Weighted average exercise price	2007 Number of options ('000)	2006 Weighted average exercise price	2006 Number of options ('000)
Outstanding at the beginning of year		66,500	–	–
Granted during the year		-	$0.054	144,500
Exercised during the year	$0.05	(66,500)	–	–
Cancelled during the year		-	$0.058	(78,000)
Exercisable at the end of the year		-	$0.050	66,500

66,500,000 share options were exercised during the year with an exercise price of $0.05 (2006: $0.05).

24. CAPITAL COMMITMENTS

The Group's capital commitments outstanding at the balance sheet date were as follows:

	2007 $'000	2006 $'000
Contracted but not provided for	29,351	40,029

(Expressed in Hong Kong dollars)

25. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases out certain properties under operating leases. The leases typically run for an initial period of one to two years. None of the leases includes contingent rentals.

The minimum rent receivables under non-cancellable operating leases are as follows:

	2007 $'000	2006 $'000
Not later than one year	**1,678**	79
Later than one year but not later than five years	**3,195**	–
	4,873	79

(b) As lessee

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to six years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually fixed with a few of them increased annually to reflect market rentals. Certain of these leases include contingent rentals which are determined based on percentage of sales.

The total future of minimum lease payments are due as follows:

	2007 $'000	2006 $'000
Not later than one year	**14,469**	11,921
Later than one year but not later than five years	**11,997**	10,459
Later than five years	**35**	–
	26,501	22,380

26. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Group's principal financial assets are trade and other receivables and cash and bank balances. Financial liabilities of the Group include trade and other payables and bank borrowings. Exposure to foreign currency risk and credit risk arises in the normal course of the Group's business. The Group does not have any written financial risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its financial risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not issued and does not hold financial instruments for trading purpose at the balance sheet date. The directors review and agree policies for managing each of these risks and they are summarized as follows:

(a) Foreign currency risk

The Group is exposed to foreign currency risk primarily through recognising trading sales and incurring costs of sales that are denominated in currencies other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily Renminbi. The Company currently does not have a foreign currency hedging policy. However, the management will monitor foreign currency exposure and consider hedging significant foreign currency exposure should the need arises.

(b) Credit risk

The Group has no significant concentrations of credit risk, which is primarily attributable to trade and other receivables. It has policies in place to ensure that sales are provided to customers with an appropriate credit history.

(c) Fair value estimation

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at the balance sheet date because of their short maturities.

(Expressed in Hong Kong dollars)

27. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Impairment on trade and other receivables

The policy for impairment of trade and other receivables of the Group is based on the evaluation of collectability and aging analysis of the trade receivables and on management's judgment for certain other receivables. A considerable amount of judgment is required in assessing the ultimate realisation of these trade and other receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Impairment on inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes provision for obsolete and slow-moving inventory items identified. The management estimates the net realisable values for such inventories based primarily on the latest invoice prices and current market conditions.

28. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 24 to 70 were approved and authorised for issue by the Board of Directors on 12 October 2007.

Particulars of properties under development held by the Group as at 30 June 2007 are set out below:

Project	Location	Intended use	Stage of completion	Expected date of completion	Site area *(sq. m)*	Gross floor area *(sq. m)*	Group's interest *(%)*
Golden River Square	Sheng Li Dong Lu/ Dan Xia Lu, Zhangzhou City, Fujin	Commercial & residential	90%	December 2007	2,569	15,800	100
Silver River Square	Zhang Hua Lu/ Dan Xia Lu, Zhangzhou City, Fujin	Commercial & residential	15%	December 2008 for the First phase	26,428	100,000	100

Five Year Summary

(Expressed in Hong Kong dollars)

	2003 $'M	2004 $'M	2005 $'M	2006 $'M	**2007** **$'M**
Results					
Turnover	163.6	189.5	206.9	219.4	**153.7**
Profit/(loss) before income tax expense	3.3	7.6	9.7	(5.1)	**(38.7)**
Income tax credit/(expense)	(3.1)	(3.7)	(3.7)	(1.0)	**0.5**
Profit/(loss) attributable to shareholders	0.2	3.9	6.0	(6.1)	**(38.2)**
Assets and liabilities					
Properties, plant and equipment	73.1	70.6	58.8	59.8	**20.1**
Investment properties	–	–	–	–	**39.8**
Construction in progress	2.5	1.8	3.0	1.1	**1.3**
Interests in leasehold land held for own use under operating leases	–	–	1.2	1.2	**0.1**
Deferred tax assets	4.4	1.8	0.1	0.1	**0.1**
Net current assets/(liabilities)	(3.2)	15.3	41.0	44.6	**61.4**
Total assets less current liabilities	76.8	89.5	104.1	106.8	**97.2**
Non-current liabilities					
Other financial liabilities	–	–	–	5.8	**-**
Deferred tax liabilities	–	–	1.4	1.5	**1.8**
Net assets	76.8	89.5	102.7	99.5	**95.4**
Share capital	9.6	11.3	13.3	13.3	**16.3**
Reserves	67.2	78.2	89.4	86.2	**79.1**
Total equity	76.8	89.5	102.7	99.5	**95.4**
Earnings/(loss) per share					
Basic	0.02 cent	0.36 cent	0.47 cent	(0.46) cent	**(2.66) cents**