Benefun

BENEFUN INTERNATIONAL HOLDINGS LIMITED
奮發國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

The Board of Directors (the "Board") of Benefun International Holdings Limited (the "Company") announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 31 December 2003 together with the comparative figures for the corresponding period in 2002.

CONDENSED CONSOLIDATED INCOME STATEMENT
(Expressed in Hong Kong dollars)

		Six months ended 31 December	
		2003	2002
	Note	***$'000***	*$'000*
			(Restated)
Turnover	*2*	**94,034**	81,689
Cost of sales		**(58,460)**	(48,947)
Gross profit		**35,574**	32,742
Other revenue		**3,388**	2,803
Distribution costs		**(22,397)**	(20,518)
Administrative expenses		**(13,693)**	(12,435)
Operating profit		**2,872**	2,592
Finance costs	*3*	**(380)**	(709)
Profit from ordinary activities before taxation	*3*	**2,492**	1,883
Taxation	*4*	**(1,229)**	(1,017)
		1,263	866
Earnings per share	*6*		
Basic		**0.12 cent**	0.09 cent
Profit attributable to shareholders is analysed as follows:			
By the Company and its subsidiaries		**1,263**	866

Notes :

1 **Basis of preparation and significant accounting policies**
The unaudited condensed consolidated interim financial statements are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. The accounting policies and basis of preparation used in the preparation of these interim financial statements are the same as those used in the preparation of the audited financial statements for the year ended 30 June 2003, except as disclosed below.

SSAP 12 (Revised) "Income Taxes" (revised in August 2002) has been adopted for the first time in the preparation of these interim financial statements. SSAP 12 (Revised) principally describes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax was provided using the income statement liability method on all significant timing differences to the extent it was probable that the liability would crystallise in the foreseeable future. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The new accounting policy has been applied retrospectively.

As a result of the adoption of this accounting policy, the Group's revaluation reserve and accumulated losses at 1 July 2003 have been decreased by $5,023,000 and $9,427,000 respectively, with a corresponding net increase in deferred tax assets of $4,404,000. The Group's profit for the period has been decreased by $1,065,000 (2002: decreased by $776,000).

Comparative figures for the period ended 31 December 2002 and as at 30 June 2003 have been restated accordingly.

2 Segment information

An analysis of the Group's revenue and results by business segment is not presented as the Group's revenue and results are predominantly derived from manufacturing, retailing and trading of apparel.

An analysis of the Group's revenue and results by geographical segment for the interim period ended 31 December 2003, together with the comparative figures for the corresponding period in 2002, is as follows:

	Mainland China		**Japan**		**Consolidated**	
	2003	2002	**2003**	2002	**2003**	2002
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
						(Restated)
(Unaudited)						
Segment revenue :						
Sales to external customers	**90,938**	78,541	**3,096**	3,148	**94,034**	81,689
Other revenue	**3,224**	2,770	–	–	**3,224**	2,770
Total segment revenue	**94,162**	81,311	**3,096**	3,148	**97,258**	84,459
Interest income and other unallocated income					**164**	33
Total revenue					**97,422**	84,492
Segment results	**2,547**	2,403	**161**	156	**2,708**	2,559
Interest income and other unallocated income					**164**	33
Profit from operating activities					**2,872**	2,592
Finance costs					**(380)**	(709)
Profit from ordinary activities before taxation					**2,492**	1,883
Taxation					**(1,229)**	(1,017)
Net profit attributable to shareholders					**1,263**	866

3 **Profit from ordinary activities before taxation**

Profit from ordinary activities before taxation is arrived at after charging:

	Six months ended 31 December	
	2003	2002
	(Unaudited)	(Unaudited)
	$'000	*$'000*
Finance costs :		
Interest on bank advances and other borrowings repayable within five years	**380**	709
Depreciation	**5,572**	5,310

4 **Taxation**

	Six months ended 31 December	
	2003	2002
	(Unaudited)	(Unaudited)
		(Restated)
	$'000	*$'000*
Current tax		
– Taxation outside Hong Kong	**164**	241
Deferred tax		
– Origination and reversal of temporary differences	**1,065**	776
	1,229	1,017

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the interim period ended 31 December 2003 (2002 : Nil).

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

5 **Dividends**

No interim dividend has been declared in respect of the interim period ended 31 December 2003 (2002 : $Nil).

6 **Basic earnings per share**

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of $1,263,000 (2002: $866,000, restated) divided by the weighted average of 1,029,375,000 ordinary shares (2002 : 961,929,000 ordinary shares) in issue during the period. Diluted figures are not shown as there is no dilutive effect for the interim period ended 31 December 2003 (2002 : Nil).

7 **Reserves**

	Share premium	**Legal reserve**	**Foreign exchange reserve**	**Revaluation reserve**	**Accumulated losses**	**Total**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 July 2003 (Audited)						
As previously reported	115,849	3,090	1,629	32,828	(90,583)	62,813
Prior period adjustment arising from adoption of revised accounting standard for income taxes	–	–	–	(5,023)	9,427	4,404
As restated	115,849	3,090	1,629	27,805	(81,156)	67,217
Premium on placing of shares	6,460	–	–	–	–	6,460
Share issue expenses	(83)	–	–	–	–	(83)
Transfer between reserves	–	–	–	(1,134)	1,134	–
Exchange difference	–	–	(54)	–	–	(54)
Net profit for the period	–	–	–	–	1,263	1,263
At 31 December 2003 (Unaudited)	122,226	3,090	1,575	26,671	(78,759)	74,803

REVIEW OF OPERATION

The consolidated turnover of the Group for the six months ended 31 December 2003 was HK$94.0 million. This represented an increase of 15.1%, as compared to HK$81.7 million for the same period last year. The net profit after tax rose by 44.4% and increased to HK$1.3 million for the current period, compared to HK$0.9 million (Restated) for the same period last year.

Our business continued to be concentrated in China. The general consumer sentiment in China was strong and encouraging. Most industries including the apparel retailing market we were in had enjoyed favourably the rising spending power of the consumers. We had successfully turned around our business since the end of 2002.

We continued to outperform local competitors and gained additional market share by expanding sales in the same shops and penetrating into more first-tier and second-tier cities. To serve the customers better and to improve merchandise logistics, the Group embarked on more effective supply chain management. China market had been further segmented into 9 districts. The Group had added 40 new shops in the past six months. We maintained 203 outlets at the end of the period, compared to 163 outlets as at end of June 2003. Out of the total number of shops, 80 shops were managed directly by the Group, and 123 shops were operated on franchise basis. Total retail area was 15,770 square meters at the period end.

The Group was persistent in strengthening brand image, product positioning and promoting strong customer loyalty. We launched successfully high quality casual lines and nationwide advertising programs through top singer "A-do" music concerts and television shows. A combination of better merchandise and higher speed of deliveries had allowed more full price sales and lower purchase cost.

Our export activity, primarily shipments to Japan, had also contributed to the growth in turnover. The export division continued to be a fast growing operation.

Since mid 2002, the Group had been participating in certain property development projects in Zhangzhou of Fujian, China. Decision was made subsequent to the Group's insight on the high demand for street stores and comfortable living place in China's second-tier cities. In March 2004, the Group had acquired all the issued share of a company which has committed to acquire a piece of land in Zhangzhou. The Group intends to develop the land for both residential and commercial purposes but the Group has not yet decided the development schedule. Details of this transaction are set out in the Company's announcement dated 11 March 2004.

OUTLOOK

Looking ahead into the second half of the current financial year, the business environment and customer sentiment in China will remain positive. The competition in the nation's apparel market is fierce. Nevertheless our Group has extensive experience and expertise in China business. We develop the China market through steady addition of self-managed stores, and an aggressive nationwide franchising strategy.

Our unique product and pricing strategies, coupled with stringent cost control, will enable us to expand our market share and secure a fruitful margin in the long run. We penetrate into each district with trend-right and price-right products.

The promotional campaigns through image-catching top singer "A-do" will continue for the forthcoming year. These programs will define further unique brand identity, distinct styles and quality to our young generation of "Fun" fans.

Following the accession of China to the W.T.O. and the imminent abolishment of the quota system next year, we expect that the Group's export business will boost significantly in the coming years.

The acquisition of a property development company in Zhangzhou in March 2004 will consolidate the Group's property development projects. Our management believes that these projects will provide additional contribution to the Group in the near future.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a stable net cash position during the period under review. Net cash balance at the period end was HK$15.6 million, compared with a balance of HK$9.5 million at 30 June 2003. Net cash inflow from operating activities was HK$8.3 million, compared with a net cash inflow of HK$9.2 million for the same period last year.

Outstanding bank loans were increased to HK$9.9 million as compared with HK$2.4 million at 30 June 2003. The bank loans are secured by the Group's properties with an aggregated carrying value of approximately HK$34.0 million at 31 December 2003 (at 30 June 2003: secured by the Group's properties with an aggregate carrying value of HK$18.0 million).

The Group's capital commitment which had been contracted for but not provided in the financial statements at 31 December 2003 was approximately HK$0.9 million (at 30 June 2003: HK$1.8 million).

The Group's bank borrowings at 31 December 2003 were in Renminbi and the Group continues to derive its revenue mainly in the same currency. Therefore its exposure to currency exchange rate fluctuation is not significant.

The debt equity ratio as at 31 December 2003 was increased to 0.11 compared with 0.03 (Restated) as at 30 June 2003.

The Group's current ratio as at 31 December 2003 was improved to 1.15, as compared with 0.94 as at 30 June 2003. The Group's quick ratio was improved to 0.87 as at 31 December 2003, as compared with 0.61 as at 30 June 2003.

HUMAN RESOURCES

As at 31 December 2003, the Group had 1,940 employees of which 1,933 were employed in the PRC for the Group's retailing and manufacturing business.

The Group offers competitive remuneration packages to its employees, and provides benefits such as staff insurance, retirement scheme, discretionary bonus and option scheme, and also provides both in-house and external training programs to strengthen the Group's human resources.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE EXCHANGE'S WEBSITE

A detailed interim results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Exchange") will be published on the Exchange's website in due course.

On behalf of the Board
Tan Sim Chew
Chairman

Hong Kong, 19 March 2004

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