BENEFUN INTERNATIONAL HOLDINGS LIMITED

奮發國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1130)

ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

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 2005 together with the comparative figures for the corresponding period in 2004. These interim financial statements have not been audited, but have been reviewed by the Company's audit committee and auditors, BDO McCabe Lo Limited.

CONDENSED CONSOLIDATED INCOME STATEMENT

(Expressed in Hong Kong dollars)

		Unaudited Six months ended 1 December	
		2005	2004
	Notes	***$'000***	*$'000*
			(restated)
Turnover	*2*	**129,302**	113,459
Cost of sales		**(81,723)**	(67,636)
Gross profit		**47,579**	45,823
Other revenue		**6,250**	3,123
Distribution costs		**(32,069)**	(29,386)
Administrative expenses		**(14,182)**	(13,889)
Profit from operations		**7,578**	5,671
Finance costs	*3*	**(101)**	(231)
Profit before income tax	*3*	**7,477**	5,440
Income tax	*4*	**(2,124)**	(2,616)
Profit for the period and attributable to the equity holders of the Company		**5,353**	2,824
Earnings per share	*6*		
Basic		**0.40 cent**	0.23 cent

CONDENSED CONSOLIDATED BALANCE SHEET

(Expressed in Hong Kong dollars)

	Note	**Unaudited As at 31 December 2005 *$'000***	Audited As at 30 June 2005 *$'000* (restated)
Non-current assets			
Property, plant and equipment		**61,652**	58,818
Construction in progress		**215**	2,986
Interests in leasehold land held for own use under operating leases		**1,212**	1,232
Deferred tax assets		**294**	124
		63,373	63,160
Current assets			
Inventories		**25,304**	27,237
Trade and other receivables		**47,179**	32,410
Cash and cash equivalents		**21,223**	41,357
		93,706	101,004
Current liabilities			
Bank loans – secured		**–**	8,907
Trade and other payables		**45,155**	51,136
		45,155	60,043
Net current assets		**48,551**	40,961
Total assets less current liabilities		**111,924**	104,121
Non-current liabilities			
Deferred tax liabilities		**2,972**	1,418
Net assets		**108,952**	102,703
Capital and reserves			
Share capital		**13,319**	13,319
Reserves	*7*	**95,633**	89,384
Total Equity		**108,952**	102,703

Notes:

1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. ("HKICPA") and the applicable disclosure provision of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These interim financial statements should be read in conjunction with the 2004/05 annual consolidated financial statements.

The principal accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the annual consolidated financial statements for the year ended 30 June 2005 except that the Group has changed certain of its accounting policies following its adoption of the applicable new Hong Kong Financial Reporting Standards ("HKFRS"), HKAS and Interpretations ("INT") (collectively "new HKFRSs") which are effective for accounting periods commencing on or after 1 January 2005.

These interim financial statements have been prepared in accordance with those new HKFRSs issued and effective as at the time of preparing these interim financial statements. The HKFRSs that will be applicable at 30 June 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements.

The changes to the Group's accounting policies and the effect of adoption these new policies are summarised below:

HKAS 17 Leases ("HKAS 17")

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. In prior years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. With the adoption of HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to "Interests in leasehold land held for own use under operating leases", which are carried at cost and amortised over the lease term on a straight-line basis. The related revaluation reserve on the leasehold land is de-recognised and the related deferred taxation reversed. The change in accounting policy is adopted retrospectively and reflected by way of prior period adjustment and restatement of comparative figures.

Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

HKFRS 2: Share-Based Payment ("HKFRS 2")

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. HKFRS 2 requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group has taken advantage of the transitional provision set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

– all options granted to directors and employees on or before 7 November 2002; and

– all options granted to directors and employees after 7 November 2002 but which had been vested before 1 January 2005.

No adjustment to the opening balances as at 1 July 2004 is required as all options existed at that time have been vested before 1 January 2005.

Summary of effects of the changes in accounting policies

The adoption of HKAS 17 resulted in a decrease in opening reserves at 1 July 2005 by HK$1,050,000:

	As at 31 December 2005	As at 30 June 2005
	$'000	*$'000*
Decrease in property, plant and equipment	**(2,393)**	(2,467)
Increase in interests in leasehold land held for own use under operating leases	**1,212**	1,232
Decrease in deferred tax liabilities	**177**	185

	For the year ended 30 June	**Six months ended 31 December**	
	2005	**2005**	2004
	$'000	***$'000***	*$'000*
Decrease in administrative expenses	**(108)**	**(54)**	(54)
Increase in deferred tax expense	**16**	**8**	8
Increase in basic and diluted earnings per share (HK cents)	**–**	**–**	–

The adoption of other applicable new HKFRSs does not result in significant changes to the Group's accounting policies except for certain changes in the presentation and disclosure of financial information.

The comparative figures for 2004 presented have incorporated the effect of adjustments, where applicable, resulting from the adoption of the new HKFRSs referred to above.

2. Segment information

Segment information is presented in respect of the Group's business and geographical segments. During the current period, the Group has changed its primary reporting format from geographical segment to business segment because this is more relevant to the Group's internal financial reporting.

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

An analysis of the Group's revenue and results by business segments for the six months ended 31 December 2005, together with the comparative figures for the corresponding period in 2004, is as follows:

	Apparel manufacturing		Property development		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
(Unaudited)	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Segment revenue:						
Turnover	**124,208**	113,459	**5,094**	–	**129,302**	113,459
Other revenue	**3,565**	1,479	**–**	–	**3,565**	1,479
Total segment revenue	**127,773**	114,938	**5,094**	–	**132,867**	114,938
Interest income and other unallocated income					**2,685**	1,644
Total revenue					**135,552**	116,582
Segment results	**4,393**	4,142	**500**	(115)	**4,893**	4,027
Interest income and other unallocated income					**2,685**	1,644
Profit from operations					**7,578**	5,671
Finance costs					**(101)**	(231)
Profit before income tax					**7,477**	5,440
Income tax					**(2,124)**	(2,616)
Profit for the period					**5,353**	2,824

3 Profit before income tax

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

	Unaudited Six months ended 31 December	
	2005	2004
	$'000	*$'000*
		(restated)
Finance costs:		
Interest on bank advances and other borrowings repayable within five years	**101**	231
Amortisation and land lease payments	**46**	20
Depreciation	**4,848**	5,378
Reversal of write-down of inventory obsolescence	**(3,708)**	(3,624)
Impairment losses of trade and other receivables	**836**	2,627

4 Income tax

Income tax in the condensed consolidated income statement represents:

	Unaudited Six months ended 31 December	
	2005	2004
	$'000	*$'000*
		(restated)
Current tax		
– Income tax outside Hong Kong	**740**	268
Deferred tax		
– Origination and reversal of temporary differences	**1,384**	2,348
	2,124	2,616

No provision for Hong Kong profits tax has been made in these interim financial statements (2004: Nil) as companies operating in Hong Kong within the Group have available tax losses for offsetting assessable profits for the period.

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 period.

5 Dividends

No interim dividend has been declared in respect of the interim period ended 31 December 2005 (2004: $Nil).

6 Basic earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of $5,353,000 (2004 (restated): $2,824,000) divided by the weighted average of 1,331,929,000 ordinary shares (2004: 1,194,972,000 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 2005 (2004: Nil).

7 Reserves

	Unaudited					
	Share premium	Legal reserve	Foreign exchange reserve	Revaluation reserve	Accumulated losses	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 July 2005, as previously reported	128,529	3,090	1,643	22,119	(64,947)	90,434
Prior year adjustment arising from adoption of HKAS 17 for leasehold land held for own use	–	–	–	(1,050)	–	(1,050)
At 1 July 2005, as restated	128,529	3,090	1,643	21,069	(64,947)	89,384
Transfer between reserves	–	–	–	(932)	932	–
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	896	–	–	896
Profit for the period	–	–	–	–	5,353	5,353
At 31 December 2005	128,529	3,090	2,539	20,137	(58,662)	95,633

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATION

The consolidated turnover of the Group reached HK$129.3 million for the six months ended 31 December 2005. This represented an increase of 14.0%, as compared to HK$113.5 million as restated for the same period last year. The operating profit (earnings before interest and taxes "EBIT") increased to HK$7.6 million, up by 33.6% from the corresponding period last year. The net profit attributable to shareholders increased to HK$5.4 million, up by 89.6% from the corresponding period last year.

Throughout these years, the Group has concentrated its business in China where tremendous opportunities and spending power lied. Despite the macroeconomic measures imposed by the Chinese Government to discourage excessive investment, both the economic and political environment remained quite stable. The continued GDP growth in China has fostered a stable market development benefiting exactly our business. The overall retail sentiment in China was strong. The consumer market for fashion continued to expand.

As at 31 December, 2005, the Group operated 264 "Fun" brand stores in China, of which 137 were managed directly by the Group, and 127 were operated on franchise basis. Most of our retail stores experienced a year-on-year sales increase.

Despite increased competition due to growing number of new entrants in apparel business, we managed to enhance the market stronghold of our "Fun" brand through sharp brand positioning. We insisted that strong brand image defined through stylish designs and quality for value, eye-catching shop displays, and efficient delivery logistics are requisite for ultimate expansion. In pace with the fast changing fashion trend, we successfully maintained a rolling 4 collections with

10 deliveries annually. Each collection had its distinctive style and meaning featuring a relaxed and elegant lifestyle. Furthermore, the advertising campaigns with Kenji Wu, a young and famous singer in South-east Asia, was well delivered to and welcomed by our young customer group.

The property projects in Zhangzhou City of Fujian province were launched smoothly and successfully. The first small-scale commercial/residential building with a gross area of approximately 1,290 square metres was completed. All units of the small property were sold contributing to an extra profit of HK$0.8 million. The Group has already commenced the construction work for another piece of land with a gross floor area of 15,800 square metres.

PROSPECT

The GDP in China will grow further and the local consumer spending power will expand at the same pace. The Group will continue to capitalize the development of our business in China. In response to an increasing competition, the Group will continue to mitigate risks and capital expenditures by setting an optimum balance between self-operating and franchising businesses.

To strengthen further our "Fun" brand positioning, we emphasize our brand as a unique U.S. lifestyle fashion capturing all the fitting trend and styles. The Group will continue its strategy on product diversification. Ladieswear and menswear for casual, denim and contemporary collections will be delicately composed and delivered to our customer segments. We will monitor the delivery lead time strictly to ensure timely response to the market. These measures will secure more merchandise at full price sales.

To meet the fine demand of our selected group of youths on shopping pleasure, we will further upgrade our shopping environment and advance our service quality regularly. To further capitalize our extensive brand awareness, we strive to sell high quality apparel with distinctive style at affordable prices. Extensive promotion programs including advertising programs with Kenji Wu will continue to be launched to boost our label and brand culture in the coming year.

The Group will continue to undertake prudent property development projects in China. There are high demands for street stores and comfortable housing in China's second-tier cities. Subsequent to the successful sale of the first small-sized property in Zhangzhou City of Fujian, the Group is constructing another piece of land with a gross floor area of 15,800 square metres in the same city. We believe that these property development projects will provide substantial revenue to the Group in addition to those from our core business on garment manufacturing and retailing.

LIQUIDITY AND FINANCIAL RESOURCES

As a result of stronger brand positioning and effective product management, the Group has maintained a high percentage of sales at full price during the period. The gross profit percentage of sales in self-operated stores was slightly increased to approximately 44 %, while that of sales to franchise stores was 23%.

Inventory level under apparel manufacturing segment was maintained at HK$ 18.9 million as at 31 December 2005. Average stock turnover for the period was kept at 1.4 months only.

The Group maintained a rather healthy net cash position during the period under review. Net cash outflow from operating activities was HK$7.7 million, compared with a net cash inflow of HK$3.5 million for the same period last year. The bank loan was fully repaid during the period under review, compared with a balance of HK$8.9 million outstanding at 30 June 2005. Cash balance at the period end was HK$21.2 million, compared with a balance of HK$41.4 million at 30 June 2005.

The Group derives its revenue and incurs its expenditure mainly in the same currency. Its exposure to currency exchange rate fluctuation is therefore not significant.

Capital commitment contracted for but not provided in the financial statement at 31 December 2005 was approximately HK$39.7 million (at 30 June 2005: HK$21.7 million).

The debt equity ratio at 31 December 2005 was zero, compared with 0.09 at 30 June 2005.

The Group's current ratio at 31 December 2005 was further improved to 2.08, as compared with 1.68 at 30 June 2005. Quick ratio was also improved to 1.51, as compared with 1.23 at 30 June 2005.

HUMAN RESOURCES

At 31 December 2005, the Group had 2,437 employees of which 2,430 were employed in the PRC for the Group's retailing and manufacturing business.

The Group offers competitive remuneration packages to its employees, such as staff insurance, retirement scheme, discretionary bonus and option scheme, and provides both in-house and external relevant training programs to strengthen the Group's human resources and keep high quality personnel at all levels.

CORPORATE GOVERNANCE

The Company has adopted all the code provisions in the Code on Corporate Governance Practice ("the Code") as set out in the Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange as its own code on corporate governance practice. In the opinion of the directors, the Company has met the code provisions of the Code during the six months ended 31 December 2005.

The Company has established an audit committee comprising three independent non-executive directors. Terms of reference of the audit committee have been updated in compliance with the Code. The audit committee has reviewed together with the management of the Company the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including review of the interim report for the six months ended 31 December 2005.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors of the Company, they all confirmed that they have complied with the Model Code throughout the six months period ended 31 December 2005.

PURCHASE, SALES AND REDEMPTION OF THE COMPANY'S SHARES

During the period, neither the Company nor its subsidiaries repurchased, sold or redeemed any of the Company's shares during the period.

By Order of the Board
TAN Sim Chew
Chairman

Hong Kong, 22 March 2006

As at the date hereof, the Board comprises seven directors of which Messrs TAN Sim Chew, ZHONG Ma Ming, FU Zi Cong and LO King Fat Lawrence are executive directors and Messrs WONG Kwai Sang Kays, Tsang Chun Pong and LI Chun Ming Raymond are independent non-executive directors.

Please also refer to the published version of this announcement in International Herald Tribune.