Benefun

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)

RESULTS FOR THE YEAR ENDED 30 JUNE 2004

RESULTS

The Board of Directors (the "Directors") of Benefun International Holdings Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2004, together with comparative figures for the previous year as follows:

	Note	For the year ended 30 June 2004 HK$'000	2003 HK$'000 (Restated)
Turnover	*1*	**189,474**	163,559
Cost of sales		**(121,072)**	(89,003)
		68,402	74,556
Other revenue		**7,078**	6,483
Distribution costs		**(39,936)**	(47,121)
Administrative expenses		**(27,417)**	(29,719)
Profit from operations		**8,127**	4,199
Finance costs		**(550)**	(901)
Profit from ordinary activities before taxation	*2*	**7,577**	3,298
Taxation	*3*	**(3,668)**	(3,088)
Profit attributable to shareholders		**3,909**	210
Earnings per share			
Basic	*4*	**0.36 cent**	0.02 cent

Notes:

1. **Turnover**

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for goods returned and trade discounts as follows:

	2004 HK$'000	2003 HK$'000
Manufacturing, retailing and trading of apparel	**189,474**	163,559

The analysis of geographical locations of customers of the Group are as follows:

	2004 HK$'000	2003 HK$'000
Mainland China	**181,179**	154,524
Japan	**8,295**	9,035
	189,474	163,559

2. Profit from ordinary activities before taxation

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

	2004 *HK$'000*	2003 *HK$'000*
Interest on bank advances and other borrowings repayable within five years	**550**	895
Depreciation	**8,787**	15,733
Provision for obsolete inventories	**4,140**	4,400
Loss on disposal of property, plant and equipment	**3,128**	–

3. Taxation

	2004 *HK$'000*	2003 *HK$'000* (Restated)
Current tax outside Hong Kong		
Provision for the year	**520**	292
(Over)/under-provision in previous years	**(127)**	123
Deferred tax	**3,275**	2,673
	3,668	3,088

No provision for Hong Kong Profits Tax has been made in the financial statements (2003: 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 rates of taxation on the estimated assessable profits arising in the relevant jurisdiction during the year.

4. Earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of HK$3,909,000 (2003: HK$210,000, as restated) divided by the weighted average of 1,080,696,000 ordinary shares (2003: 961,929,000 ordinary shares) in issue during the year. Diluted figures are not shown as there is no dilutive effect for the year ended 30 June 2004 (2003: Nil).

5. Dividend

The Directors do not recommend the payment of any dividend for the year ended 30 June 2004 (2003: Nil).

BUSINESS REVIEW

For the fiscal year ended 30 June 2004, the Group's turnover increased by 15.8% to HK$189.5 million (2003: HK$163.6 million). Gross profit decreased by 8.3% and amounted to HK$68.4 million (2003: $74.6 million). Nevertheless net profit from ordinary activities attributable to shareholders increased to HK$3.9 million (2003: HK$0.2 million as restated).

The Group has consistently concentrated on its business in China. Although the Chinese Government imposed macroeconomic measures to discourage excessive investment, the economic and political environment remained quite stable. The promising GDP growth has fostered a steady consumer and export market development favoring our business. As at 30 June 2004, the Group operated 261 "Fun" brand stores in China. The number of directly managed stores increased by 30% to a total of 99, while the number of franchise stores increased by 86% to 162 in total. Most of our retail stores experienced a year-on-year sales increase. The Group's nationwide franchising strategy by forming partnerships with local young entrepreneurs proved to be very successful. Merchandise was sold to these operators at lower margin but the corresponding expenses substantially reduced.

Orders for our export business were steadily constant with those of previous year. In the past, export activity contributed only a small portion to our revenue, being 4.4% of the total turnover. However, we believe that our competitive pricing strategy will enable a progressive expansion of our export business.

Fashion retailing market in China has been very competitive during the year. The Group has persevered in its strategy of enhancing market shares and improving profit margin through strong brand positioning and high customer loyalty.

We reinforced this by delivering differentiated products with high quality and value to our customers. To catch up with the fast changing fashion pace, we maintained 10 collections in the year. Each collection had its distinctive style and meaning. We had the denim collection building up our labeled culture – a U.S lifestyle expressing adventures and "fun". With different target groups in mind, we had the contemporary collection tailoring to the younger and more fashionable customers, and the basic collection catering to the long and loyal customers. Upgrading for our stores was regularly conducted with dedication to provide relaxed lifestyle store atmospheres and enjoyable services to our customers. Successful launch of different styles of casual lines coupled with nationwide advertising programs through top singer "A-do" music concerts and television shows had effectively strengthened our brand image.

The Group's production facilities worked smoothly in the year. The production capacity was further expanded by 15% compared with last year. Approximately 60% of the group's product was supplied by the Group's production facilities.

Several prudent property projects in Zhangzhou City of Fujian Province were launched during the year. The first commercial/residential building with an usage area of approximately 3,000 square metres is under construction and expected to complete by the end of year 2004. The land use right for two additional pieces of land was committed to be acquired from the Land Bureau through public auction during the year. Our total land reserves accumulated to approximately 33,000 square metres situating in prime area. The Group would develop the land purchased for both commercial and residential purposes.

PROSPECT

Driven by a promising GDP growth and the rising consumer spending power, the Group will further capitalize the growth opportunity in China's fashion market. The Group will undertake geographic expansion for its retail operation and network. With increasing market competition, the Group will mitigate risks and capital expenditures by setting an optimum balance between self-operating and franchising businesses.

We will further boost the brand positioning of "Fun" with promotion of 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. The Group will monitor the delivery lead-time strictly to ensure timely response to the market. These measures will secure more merchandise at full price sales.

The momentum of strong market positioning can be sustained. We will upgrade our shopping environment and advance our service standard regularly. To further capitalize our extensive brand awareness, we will sell high quality apparel with distinctive style at affordable prices. Extensive promotion programs will be launched to boost our label and brand culture in the coming year.

We expect a stable overall global economy with steady growth. With the foreseeable abolition of the U.S. quota system, the management will expand export garment business through implementation of fitting supply chain management system. We are improving and upgrading our production floor area by another 2,400 square metres to enable a more efficient local and export ordering process.

The Group will continue to undertake prudent property development projects in China. It is expected that construction of all remaining land reserves will commence in the next few years. The Group is able to allocate appropriate expertise and finance for these land development projects. We will prudently acquire additional land reserves in the region besides Zhangzhou City. The management is confident that these property developments will provide substantial revenue to the Group in addition to its core business on garment manufacturing and retailing.

LIQUIDITY AND FINANCIAL RESOURCES

As a result of strong brand positioning and effective implementation of product strategies, higher percentage of full price sales continued in the year. The gross profit percentage of sales in self-operated stores maintained at approximately 42%, while that of sales to franchise stores was 29%.

The Group has adopted a motivating performance-based remuneration system. The staff cost as a percentage to sales maintained at 18.5% as against 17.9% of last year. Because more weighting was put on franchising business, the rental cost as a percentage to sales fell to 7.7%, compared with 9.6% of last year.

Inventory level maintained at HK$16.3 million as at 30 June 2004 (2003: HK$16.3 million). Because of tight control on ordering and delivery, average stock turnover for the year improved to 1.6 month only.

Net cash inflow from operating activities was HK$1.7 million for the reported year, compared with HK$17.0 million for the prior year. Cash balance at the year-end amounted to HK$17.9 million, versus HK$9.5 million at the prior year-end.

Outstanding bank loans increased to HK$9.9 million, as compared with HK$2.4 million last year. The bank loans were secured by the Group's properties with an aggregate carrying value of approximately HK$31 million at 30 June 2004.

Capital commitment contracted for but not provided in the financial statement at 30 June 2004 was approximately HK$23.9 million (2003: HK$1.8 million).

The Group's bank borrowings at 30 June 2004 were in Renminbi and the Group continues to derive its revenue mainly in the same currency. Therefore its exposure to exchange rate fluctuation is not significant.

The debt equity ratio as at 30 June 2004 was 0.11, compared with 0.03 on the same date last year.

The Group's current ratio as at 30 June 2004 was 1.26, as against 0.94 at the prior year-end. Quick ratio was 0.98, versus 0.61 at the prior year-end.

HUMAN RESOURCES

As at 30 June 2004, the Group had 2,112 employees (2003: 1,880). The Group offers competitive remuneration, bonus and share option packages based on the performance of the Group and that of individual employees. Relevant training courses are offered to employees regularly.

OTHER INFORMATION

The annual report of the Group for the year ended 30 June 2004 containing all the information required by the paragraph 45(1) to 45(3) of Appendix 16 (in force prior to 31 March 2004 and applicable to this announcement under the transitional arrangement) to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") will be published on the website of the Stock Exchange in due course.

By Order of the Board
Tan Sim Chew
Chairman

Hong Kong, 11 October 2004

As at the date hereof, the Board comprises seven directors of which Messrs. TAN Sim Chew, CHEN Miao Zhu, FU Zi Cong and LO King Fat, Lawrence as executive directors; and Messrs. WONG Kwai Sang, TSANG Chun Pong and LI Chun Ming, Raymond as independent non-executive directors.

* *for identification purposes only*

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