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 2008

The Board of Directors (the "Directors") of Benefun International Holdings Limited (the "Company") hereby announces the annual consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June 2008, together with comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

(Expressed in Hong Kong dollars)

		For the year ended 30 June	
		2008	2007
	Notes	***$'000***	*$'000*
Turnover	*2*	**120,019**	153,726
Cost of sales		**(90,349)**	(99,825)
Gross Profit		**29,670**	53,901
Other income and gains	*3*	**30,277**	8,897
Distribution costs		**(48,551)**	(63,080)
Administrative and other operating expenses		**(46,398)**	(36,838)
Loss from operations		**(35,002)**	(37,120)
Finance costs		**(3,024)**	(1,595)
Loss before income tax expense	*4*	**(38,026)**	(38,715)
Income tax (expense)/credit	*5*	**(3,309)**	468
Loss attributable to equity holders of the Company		**(41,335)**	(38,247)
Loss per share	*7*		
– Basic and diluted		**(2.30 cents)**	(2.66 cents)

CONSOLIDATED BALANCE SHEET

(Expressed in Hong Kong dollars)

	Notes	**As at 30 June 2008 $'000**	As at 30 June 2007 $'000
Non-current assets			
Property, plant and equipment		**1,092**	20,151
Investment properties	*8*	**54,379**	39,784
Construction in progress		**–**	1,272
Payment for leasehold land held for own use under operating leases		**–**	109
Deferred tax assets		**203**	36
Total non-current assets		**55,674**	61,352
Current assets			
Inventories		**62,239**	27,771
Trade and other receivables		**38,740**	72,753
Tax recoverable		**3,772**	435
Cash and cash equivalents		**28,199**	20,416
Total current assets		**132,950**	121,375
Current liabilities			
Trade and other payables		**90,637**	45,466
Provision		**6,598**	–
Other financial liabilities		**–**	40,041
Total current liabilities		**97,235**	85,507
Net current assets		**35,715**	35,868
Total assets less current liabilities		**91,389**	97,220
Non-current liabilities			
Deferred tax liabilities		**5,514**	1,802
		5,514	1,802
Net assets		**85,875**	95,418
Capital and reserves attributable to equity holders of the Company			
Share capital		**19,550**	16,350
Reserves	*9*	**66,325**	79,068
Total equity		**85,875**	95,418

Notes:

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated 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 Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

In the current year, the Group has applied all the new and revised standards, amendments and interpretations ("new HKFRSs") issued by HKICPA, that are relevant to its operation and effective for the current accounting period of the Group and the Company. The adoption of the new HKFRSs did not affect recognition or measurement of the amounts recognized in the financial statements for the current or prior accounting periods. As a result, no prior period adjustment has been required.

2 SEGMENT RESULTS

An analysis of the Group's revenue and results by business segments for the year ended 30 June 2008, together with the comparative figures for the corresponding period in 2007 is as follows:

	Apparel manufacturing		**Property rental**		**Property development**		**Consolidated**	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Segment revenue:								
Turnover	**113,256**	150,311	**6,763**	3,415	**–**	–	**120,019**	153,726
Other income	**22,623**	8,747	**7,288**	–	**–**	–	**29,911**	8,747
Total segment revenue	**135,879**	159,058	**14,051**	3,415	**–**	–	**149,930**	162,473
Interest income and other unallocated income							**366**	150
Total revenue							**150,296**	162,623
Segment results	**(44,751)**	(32,582)	**13,443**	3,415	**1,367**	(5,647)	**(29,941)**	(34,814)
Unallocated results							**(5,427)**	(2,456)
Interest and other unallocated income							**366**	150
Loss from operations							**(35,002)**	(37,120)
Finance costs							**(3,024)**	(1,595)
Loss before income tax expense							**(38,026)**	(38,715)
Income tax (expense)/credit							**(3,309)**	468
Loss attributable to equity holders of the Company							**(41,335)**	38,247

The Group comprises the following main geographic segments:

	Mainland China		Hong Kong		Others		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Turnover from external customers	**120,019**	153,726	**–**	–	**–**	–	**120,019**	153,726

3. OTHER INCOME AND GAINS

	2008	2007
	$'000	*$'000*
Interest income	**277**	150
Sub-contracting fees	**1,382**	5,446
Franchising fees	**–**	1,246
Gain on disposal of trademark	**21,617**	–
Change in fair value of investment properties	**7,288**	–
Others	**(287)**	2,055
	30,277	8,897

4 LOSS BEFORE INCOME TAX EXPENSE

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

	2008	2007
	$'000	*$'000*
Cost of inventories sold	**90,349**	96,520
Interest on other financial liabilities	**3,024**	1,595
Share based payment expense – equity settled	**2,401**	–
Depreciation on property, plant and equipment	**4,558**	9,410
Write-down of inventories	**–**	3,305
Impairment loss on trade and other receivables	**16,658**	6,631
Reversal of impairment loss on trade and other receivables	**(3,416)**	–
Net loss on disposal of property, plant and equipment and construction in progress	**14,520**	2,073

5 TAXATION

The amount of taxation in the consolidated income statement represents:

	2008	2007
	$'000	*$'000*
Current tax – overseas		
– tax for the year	**–**	(89)
Deferred tax		
– current year	**(1,995)**	557
– effect of change in tax rate	**(1,314)**	–
Income tax (expense)/credit	**(3,309)**	468

No provision for Hong Kong Profits Tax has been made in the financial statements (2007: Nil) as the Group's Hong Kong operations sustained a loss for taxation purposes during the year.

Overseas tax is calculated at the rates applicable in the respective jurisdictions.

6 DIVIDENDS

The Directors do not recommend payment of any dividend for the year ended 30 June 2008. (2007: Nil).

7 LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders of HK$41,335,000 (2007: HK$38,247,000) divided by the weighted average of 1,795,563,000 ordinary shares (2007: 1,439,991,000 ordinary shares) in issue during the year. The diluted loss per share for the years ended 30 June 2008 and 2007 is same as basic loss per share because the effect of the assumed exercise of all potential ordinary shares is anti-dilutive.

8 INVESTMENT PROPERTIES

	2008	2007
	$'000	*$'000*
FAIR VALUE		
At the beginning of year	**39,784**	–
Transfer from property, plant and equipment	**5,432**	38,796
Exchange adjustments	**1,753**	–
Transfer from payment for leasehold land held for own use under operating leases	**122**	988
Change in fair value	**7,288**	–
At end of year	**54,379**	39,784

9 RESERVES

	Share premium $'000	Share-based compensation reserve $'000	Legal reserve $'000	Foreign exchange revaluation reserve $'000	Revaluation reserve $'000	Accumulated losses $'000	Total $'000
At 30 June 2007	153,820	–	3,090	5,679	22,075	(105,596)	79,068
Premium on placing of new shares	19,840	–	–	–	–	–	19,840
Translation differences on overseas operations	–	–	–	5,643	–	–	5,643
Change in fair value of buildings	–	–	–	–	944	–	944
Employee share option benefits	–	2,401	–	–	–	–	2,401
Deferred tax arising from change in valuation of buildings	–	–	–	–	(236)	–	(236)
Loss for the year	–	–	–	–	–	(41,335)	(41,335)
At 30 June 2008	**173,660**	**2,401**	**3,090**	**11,322**	**22,783**	**(146,931)**	**66,325**

10 EVENTS AFTER BALANCE SHEET DATE

On 24 June 2008, the Company entered into an acquisition agreement with Blackpool Stadium Limited for the acquisition of 100% equity interest and the loan in the Target Company – Ample Rich Enterprises Limited at a total consideration of $500 million. The consideration shall be satisfied by: 1) issue of the $100 million Promissory Note which will be repayable on demand at any time commencing from 24 December 2009. The Promissory Noter shall be returned to the Company for cancellation if the Acquisition cannot be completed; 2) issue of $400 million of Convertible Notes with a conversion price at $0.064 per Conversion Share to Blackpool Stadium Limited upon completion. The completion of the acquisition is subject to fulfilment of certain conditions, inter alia, the approval of the shareholders at the extraordinary general meeting. The extraordinary general meeting was held on 20 October 2008 and the shareholders had approved the aforesaid acquisition.

11 EXTRACT OF THE AUDITOR'S REPORT

Basis for qualified opinion

Included in the total cost of sales in the consolidated income statement for the year ended 30 June 2008 are alleged purchase of finished goods of approximately $30.63 million for which we were not able to obtain any purchase invoices nor any evidence of goods receipts. Management attributed this situation to the closure of shops and factories during the year resulting in difficulty in locating the underlying records for the relevant transactions. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the nature of the recorded transactions and whether those transactions and balance were free from material misstatement. At the balance sheet date, there were no outstanding payables arising from the recorded transactions.

Qualified opinion arising from limitation of audit scope

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the recorded purchase transactions, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2008 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.

BUSINESS AND OPERATION REVIEW

In the year under review, China's economic growth had been slowing subsequent to last years' rapid growth. The volatility and instability of the fashion retail sector was particularly apparent. In recent years, the strong demand for presence by new and international retailers had already pushed general shop rentals up by 2 to 3 times. The high turnover of frontline personnel had also made the retail operation very unstable. The result was that retail price competition was harsh, while the cost of product supplies, and the operating cost on shop rental and manpower surged to high levels. Because of this adverse development, the Group's policy was to consolidate our scale of retail operation. The strategy was to exit from loss-making area precisely and re-invest by stages in businesses where profit potential was identified and tested.

In May 2008, the Company entered into a sale agreement with an independent third party for the disposal of the Company's major fashion trademark "FUN". Thereafter, the Group's retail stores had continued to operate "FUN" brand shops but as franchisee and on a small scale only. Nevertheless, following the policy of retrenchment, the Group continued to terminate the leases of loss-making shops immediately or allow them to lapse upon expiry. As at 30 June, 2008, the Group operated 7 fashion stores in China.

The Group had outsourced all production orders to external factories to take benefit on bulk purchasing and to reduce operating risk. The Group took stringent measures to curb operating cost increase. On the other hand, we succeeded to sell quality wears identified with contemporary styles. Casual, denim and contemporary collections of ladies' and men's wears continued to be well structured and delivered to our customers.

China had implemented macroeconomic policies to maintain property market stability. Nevertheless house prices in second tier cities were kept more constant compared with those in big cities like Shanghai and Shenzhen. The Group's property development projects in Zhangzhou City of Fujian Province had progressed according to plan. The construction of a 22-storey commercial/residential building known as "Singapore Ritz" with a usable area of approximately 15,800 square meters was completed and will be available for occupancy in early 2009. Currently, approximately 90 percent of the units have been sold in advance. Additionally the pre-construction plan for another 2 pieces of land with a total land area of approximately 30,000 square meters was also completed.

PROSPECT

The recent global financial crisis has unavoidably been affecting the China economy though to a lesser extent. The China government has a dedication to expand domestic demand in order to maintain macroeconomic, financial and market stability. We foresee that the fashion retail market in China will still expand in coming years. Yet severe competition and higher market risk will make business return more volatile. Our Group insists to operate retail business only under modest risk and low cost. Therefore, we may further consolidate the retail scale and only expand it when the retail environment really improves.

The property market in China has been plummeting since early 2008. This is more apparent in large and urban cities. However, the fall in property price could lead to major industry correction and subsequent easing of rules benefiting the real estate market in the medium term. In Zhangzhou, 90 percent of units in the 22-storey "Singapore Ritz" have been sold in advance. The few remaining units, mostly being street shops, will be ready for sale in early 2009 when the occupancy permit is obtained. The other two pieces of land in Zhangzhou with a total land area of approximately 30,000 square meters are pending for issue of Government permits in the coming year in order to commence the pre-construction work.

In view of the fierce competition of the fashion retailing business, the Group has been continuing to exploit new business opportunities for business diversification. In June 2008, the Group diversified into the ecological plantation business through the acquisition of Ample Rich Enterprises Limited. The latter company is being wholly owned and operates a huge plantation project for a term of 30 years. The plantation land, being flatland area mainly cultivated with poplar trees with timber volume estimated as 632,991 cubic meters, has a market value of Rmb 530,000,000. The plantation land is situated in Shihezi City(石河子市), Xinjiang Region, China. The site is about 150 kilometers west from Urumqi, the provincial capital, and is well connected with the China National Highway No. 312 and railways.

The acquired plantation business mainly includes plantation, research and development on related plantation technologies, manufacture, sale and distribution of plantation products, It includes the plantation of fast growing, high yield, renewable and sustainable wood resource and seasonal crop. Wood resource of poplar tree provides the raw material for wood industry and wood pulp for paper making industry. Seasonal crop such as castor seed oil is the internationally traded raw material for making aviation engines lubricant, paintings and coatings, cosmetics, pharmacy and substitutes to oil derivative products.

According to the Annual Review and Assessment of the World Timber Situation 2007 by the International Tropical Timber Organization, the real gross domestic product in the emerging market and developing economies reached approximately 7.8% in 2007 (with the PRC's real gross domestic product growth of approximately 2.6% in 2007), which has outgrown that of the advanced economies of 11.4%. The demand for housing and thus wood materials in the China is expected to grow in the long run in view of the economic expansion in China. The Plantation business is expected to be on an upward trend due to their scarcity and the increasing demand, particularly when China is now the world's number one importer of industrial wood logs. In light of the above, the acquisition represents a good opportunity for the Company to enter into the plantation industry with huge potential and good future prospect.

LIQUIDITY AND FINANCIAL RESOURCES

The gross profit was HK$29.7 million as compared with HK$53.9 million last year. Gross profit percentage was 24.7% as compared with 35.1% last year.

There was no garment inventory as at 30 June 2008, as compared with an inventory of HK$10.9 million at the prior year-end.

Net cash generated from operating activities was HK$30.2 million for the reporting year, compared with net cash used of HK$27.1 million for the prior year. Cash balance as at 30 June 2008 amounted to HK$28.2 million, compared with HK$20.4 million at the prior year-end.

There was no outstanding bank loan as at 30 June 2008, while the bank loan as at the prior year-end was HK$40 million.

Capital commitment contracted for but not provided in the financial statement as at 30 June 2008 was approximately HK$33.1 million, as compared with HK$29.4 million at the prior year-end.

The Group did not have outstanding loan payable as at 30 June 2008. Therefore the debt equity ratio was zero as at 30 June 2008, as compared with 0.42 at the prior year-end.

The current ratio as at 30 June 2008 was 1.37, as compared with 1.42 at the prior year-end. Quick ratio as at 30 June 2008 was 0.73, as compared with 1.09 at the prior year-end.

HUMAN RESOURCES

Subsequent to the Group's retrenchment policy, most shops were closed during the reporting year. Substantial number of employees was retired and left before the year-end. The Group employed approximately 29 employees as at 30 June 2008, compared with 1,288 staff at the prior year-end. In addition to the basic salary, the Group provides staff benefits, which include retirement scheme contribution and year-end bonus etc. Remuneration packages are determined from staff performance, work contribution and the current market situation.

CORPORATE GOVERNANCE

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 compiled with code provisions as set out in the Code during the year ended 30 June 2008.

The Company's audit committee is composed of three independent non-executive directors. It reports directly to the board and reviews matters within the scope of audit, such as financial statements and internal controls. The written terms of reference which describes the authority and duties of the audit committee are regularly reviewed and updated by the board. The audit committee has discussed auditing, internal controls and financial reporting matters including the annual consolidated results of the Group for the year ended 30 June 2008.

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the codes of conduct regarding securities transactions by the directors and by relevant employees. All directors have confirmed, following specific enquiry by the Company, that they fully compiled with the Model Code throughout the year.

PURCHASE, SALES AND REDEMPTION OF THE COMPANY'S SHARES

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

By Order of the Board
TAN Sim Chew
Chairman

Hong Kong, 22 October 2008

As at the date hereof, the Board comprises eight directors of which Messrs TAN Sim Chew, ZHONG Ma Ming, FU Zi Cong, LO King Fat Lawrence and LEUNG Kwong Choi are executive directors and Messrs LI Chun Ming, Raymond, CHEUNG Ngai Lam and TSANG Chung Yu are independent non-executive directors.

* *For identification purpose only*