2001

INTERIM REPORT

Benefun International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

The board of directors of Benefun International Holdings Limited (the "Company") announces the unaudited interim results of the Company and its subsidiaries and associates (collectively referred as the "Group") for the six months ended 31 December, 2000 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2000 — UNAUDITED
(Expressed in Hong Kong dollars)

		Six months ended 31 December	
	Note	**2000**	1999
		$'000	*$'000*
Turnover	*2*	**61,574**	54,500
Cost of sales		**(43,568)**	(44,877)
		18,006	9,623
Other revenue		**1,985**	2,299
Distribution costs		**(17,810)**	(12,694)
Administrative expenses		**(9,772)**	(8,835)
Operating loss	*2*	**(7,591)**	(9,607)
Finance cost	*3*	**(2,074)**	(2,063)
Share of losses of associated companies		**(146)**	(95)
Loss from ordinary activities before taxation	*3*	**(9,811)**	(11,765)
Taxation	*4*	**(166)**	(293)
Loss attributable to shareholders		**(9,977)**	(12,058)
Loss per share	*6*		
Basic		**(1.49) cents**	(2.28) cents
Loss attributable to shareholders is analysed as follows:			
By the Company and its subsidiaries		**(9,831)**	(11,963)
By associated companies		**(146)**	(95)
		(9,977)	(12,058)

The notes on pages 5 to 11 form part of this interim financial report.

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES
FOR THE SIX MONTHS ENDED 31 DECEMBER 2000 — UNAUDITED

(Expressed in Hong Kong dollars)

		Six months ended 31 December	
	Note	**2000**	1999
		$'000	*$'000*
Exchange differences on translation of the accounts of subsidiaries outside Hong Kong	*12*	**68**	—
Net profit not recognised in the profit and loss account		**68**	—
Loss for the period		**(9,977)**	(12,058)
Total recognised gains and losses		**(9,909)**	(12,058)
Movement of goodwill taken directly to reserves	*12*	**(10,798)**	—
		(20,707)	(12,058)

The notes on pages 5 to 11 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2000 — UNAUDITED
(Expressed in Hong Kong dollars)

	Note	**At 31 December 2000**		**At 30 June 2000**	
		$'000	***$'000***	***$'000***	***$'000***
Non-current assets					
Fixed assets	*7*		**93,226**		**91,398**
Construction in progress			**3,870**		**4,802**
Interest in associates			**2,354**		**—**
			99,450		**96,200**
Current assets					
Inventories	*8*	**50,092**		**58,989**	
Trade and other receivables	*9*	**26,677**		**21,254**	
Cash at bank and in hand		**5,779**		**27,553**	
		82,548		**107,796**	
Current liabilities					
Bank loans and overdrafts		**33,823**		**40,107**	
Trade and other payables	*10*	**49,918**		**41,054**	
		83,741		**81,161**	
Net current (liabilities)/ assets			**(1,193)**		**26,635**
Total assets less current liabilities			**98,257**		**122,835**
Non-current liabilities					
Bank loans		**9,840**		**13,711**	
Deferred taxation		**466**		**466**	
			10,306		**14,177**
NET ASSETS			**87,951**		**108,658**
CAPITAL AND RESERVES					
Share capital	*11*		**66,833**		**66,833**
Reserves	*12*		**21,118**		**41,825**
			87,951		**108,658**

The notes on pages 5 to 11 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2000 — UNAUDITED
(Expressed in Hong Kong dollars)

	Note	**Six months ended 31 December 2000** *$'000*
Net cash outflow from operating activities		(769)
Net cash outflow from returns on investments and servicing of finance		(2,040)
Tax paid		(236)
Net cash outflow from investing activities		(8,498)
Net cash outflow before financing		(11,543)
Net cash outflow from financing		(6,465)
Decrease in cash and cash equivalents		(18,008)
Cash and cash equivalents at 1 July 2000		23,787
Cash and cash equivalents at 31 December 2000		5,779
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand		5,779

The notes on pages 5 to 11 form part of this interim financial report.

Notes on the unaudited interim financial report
(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants (“HKSA”). KPMG’s independent review report to the board of directors is included on page 12.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the HKSA except that comparative figures for the cash flow statement have not been prepared as the Company has taken advantage of the transitional provisions set out in the Main Board Listing Rules.

The financial information relating to the financial year ended 30 June 2000 included in the interim financial report does not constitute the Company’s statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 30 June 2000 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 10 November 2000.

The same accounting policies adopted in the 30 June 2000 annual accounts have been applied to the interim financial report.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 30 June 2000 annual accounts.

2 SEGMENTAL INFORMATION

The analysis of the principal activities and geographical location of the operations of the Company and its subsidiaries during the financial period are as follows:

Principal activities

	Group turnover Six months ended 31 December		Contribution to operating (loss)/profit Six months ended 31 December	
	2000	1999	**2000**	1999
	$'000	*$'000*	***$'000***	*$'000*
Manufacturing, retailing and trading of apparel	**60,805**	53,651	**(7,872)**	(10,128)
Others	**769**	849	**281**	521
	61,574	54,500	**(7,591)**	(9,607)

Geographical locations of operations

	Group turnover Six months ended 31 December	
	2000	1999
	$'000	$'000
Hong Kong	**769**	849
The People's Republic of China	**60,805**	53,651
	61,574	54,500

3 LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	Six months ended 31 December	
	2000	1999
	$'000	*$'000*
Interest on borrowings	**2,074**	2,063
Depreciation	**5,258**	5,165
Obsolete stocks written off	**–**	7,655
Debtors and deposits written off	**–**	835

4 TAXATION

	Six months ended 31 December	
	2000	1999
	$'000	*$'000*
Taxation outside Hong Kong	**166**	293

No provision for Hong Kong profits tax has been made in the interim financial report for the period ended 31 December 2000 as the Group's Hong Kong operations sustained a loss for taxation purposes during the period.

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 2000 (1999: $Nil).

6 LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders of $9,977,000 (1999: $12,058,000) and the 668,329,000 ordinary shares (1999: weighted average of 529,272,369 ordinary shares) in issue during the period. Fully diluted figures are not shown as there is no potential dilutive effect for the interim period ended 31 December 2000.

7 FIXED ASSETS

Land and buildings are stated in the balance sheet at valuation less accumualted depreciation. Investment properties are stated at their open market value at 30 June 2000. The directors are of the opinion that the open market value of the above assets at 31 December 2000 did not materially differ from their net book value.

8 INVENTORIES

Included in inventories are finished goods of $1,260,000 (30 June 2000: $12,375,000), stated net of a general provision made in order to state these inventories at the lower of their cost and estimated net realisable value. The amount of reversal of a write-down of inventories to estimated net realisable value, recognised in the consolidated profit and loss account as a reduction in the amount of inventories recognised as an expense during the period, is $7,168,000 (1999: $13,855,000).

9 TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are debtors with the following ageing analysis:

	At 31 December 2000	At 30 June 2000
	$'000	*$'000*
Current	**5,326**	8,702
One to three months overdue	**2,569**	2,787
More than three months overdue but less than twelve months overdue	**714**	884
Over twelve months overdue	**5,475**	4,330
Total debtors before provision	**14,084**	16,703
Provision for doubtful debts	**(5,346)**	(5,334)
Total debtors	**8,738**	11,369
Deposits, prepayments and other receivables	**17,939**	9,885
	26,677	21,254

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.

10 TRADE AND OTHER PAYABLES

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

	At 31 December 2000 **\$'000**	At 30 June 2000 \$'000
Due within one month or on demand	**3,041**	3,961
Due after one month but within three months	**3,104**	3,480
Due after three months but within six months	**14,231**	15,140
Total creditors and bills payable	**20,376**	22,581
Other payable and accrued liabilities	**29,542**	18,473
	49,918	41,054

11 SHARE CAPITAL

	Amount *\$'000*
Authorised:	
1,000,000,000 ordinary shares of \$0.10 each	100,000
Issued and fully paid:	
668,329,000 ordinary shares of \$0.10 each	66,833

Pursuant to a written resolution passed on 5 May 1997, a Share Option Scheme for employees was approved and the directors may, at their discretion, invite any employees or directors of the Group, to take up options to subscribe for shares of the Company at a price to be determined by the Board which will not be less than 80 per cent of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares, whichever is the higher.

The maximum number of shares in respect of which options may be granted (together with shares in respect of which any options remain outstanding) under the Share Option Scheme of the Company may not exceed 10 per cent of the issued share capital of the Company from time to time, excluding for this purpose shares issued on exercise of options granted pursuant to the Share Option Scheme.

On 27 January 1999, the Company granted a total of 32,500,000 share options to four executive directors and a senior executive with each person receiving 6,500,000 share options which are exercisable at a subscription price of $0.1383 per share. Each share option entitled the holder to subscribe for one share of $0.10 each in the Company.

On 18 November 1999, 19,500,000 share options were exercised and on 3 December 1999, the remaining 13,000,000 share options were exercised.

On 23 February 2000, the Company granted 19,833,000 share options for a total consideration of $3 to three executive directors with each person receiving 6,611,000 share options which are exerciable at a subscription price of $0.4496 per share. All these share options are exercisable on or after 23 August 2000 and will expire on 23 August 2003. These options were outstanding as at 31 December 2000.

12 RESERVES

	Share premium	Legal reserve	Foreign exchange revaluation reserve	Revaluation reserve	Accumulated losses	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 July 2000	104,515	3,090	1,516	40,990	(108,286)	41,825
Transfer between reserves	—	—	—	(1,572)	1,572	—
Exchange differences	—	—	68	—	—	68
Goodwill arising on acquisition of an associated company	—	—	—	(10,798)	—	(10,798)
Loss for the period	—	—	—	—	(9,977)	(9,977)
At 31 December 2000	104,515	3,090	1,584	28,620	(116,691)	21,118

13 CAPITAL COMMITMENTS

Capital commitments in respect of plant and machinery and other fixed assets outstanding and not provided for in the accounts were as follows:

	At 31 December 2000	At 30 June 2000
	$'000	*$'000*
Contracted for	**1,237**	737
Authorised but not contracted for	**—**	7,853
	1,237	8,590

14 MATERIAL RELATED PARTY TRANSACTIONS

At 31 December 2000, the Group had bank loans totalling $1,226,000 (at 30 June 2000: $1,224,000) secured by the land use rights in respect of a piece of land in Mainland China which is owned by a director of the Company.

15 OUTSTANDING LITIGATION

A previous landlord of a subsidiary, Benefashion Limited ("Benefashion") disagreed with the early termination of an operating lease on a commercial property and has obtained a judgement against the Group. The previous landlord claimed compensation for early termination of approximately $7 million. The Company has not provided any undertaking or guarantee in respect of this lease. Benefashion is insolvent and is considering commencing a voluntary liquidation. Accordingly, no provision for the compensation claimed has been included in these accounts.

16 POST BALANCE SHEET EVENT

In connection with the Share Option Scheme approved on 5 May 1997 as described in note 11, the Company granted a total of 11,200,000 share options to four executive directors and a senior executive at a subscription price of $0.16 per share on 31 January 2001. Each share option entitled the holder to subscribe for one share of $0.10 each in the Company. All these share options are exercisable on or after 31 July 2001 and will expire on 30 July 2004.

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF BENEFUN INTERNATIONAL HOLDINGS LIMITED

Introduction

We have been instructed by the company to review the interim financial report set out on pages 1 to 11.

Directors' responsibility

The Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted out review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 31 December 2000.

KPMG
Certified Public Accountants

Hong Kong, 23 March, 2001

RESULTS

The unaudited net loss attributable to shareholders for the six months ended 31 December, 2000 amounted to approximately HK$10 million, as compared with a net loss of HK$12 million in the same period last year. Turnover had increased by 13 percent over the same period last year to HK$62 million as a result of improved shop performance.

INTERIM DIVIDEND

The directors have resolved not to declare the payment of an interim dividend for the six months ended 31 December, 2000 (1999 same period: nil).

BUSINESS REVIEW

In the period under review, the Group had focused its business in China in apparel retailing. The turnover on retailing and trading had increased by 13.3 percent to HK$61 million. The gross profit ratio had been improved to 29.2 percent of turnover, compared to 17.7 percent in the same period last year. They were the results of better shop presentation, and a more stringent cost control on production.

The construction of a large production plant in Anxi was fully completed in January 2001. Manufacturing and related operating processes had been re-engineered. This enabled eighty-five percent of the fashion merchandise supplied to the Group's retail outlets to be manufactured by our factory in Anxi.

The fall/winter season had arrived late but the coldness continued after the Chinese New Year. The sales during January and February 2001 were very promising. Sales in the second half year of 2000 experienced steady growth, although there was less excitement during the months with prolonged holidays like National Day, compared with those of the previous year.

Inventory management had been significantly improved. The Group had strengthened its "mix and match" strategy on each merchandise planned and produced. Tailor-made promotion programs were launched for all fashion series and collections then mixed and matched.

The Group had opened mega-sized image shops in many prime cities including Beijing and Chengdu etc. New pronouncements on fashion concepts, upgradings on shop renovations, trendy merchandise displays and cordial customer services had contributed to favourable customer response, leading to frequent customer re-visits and patronage.

The Group was dedicated to create brand uniqueness and customer acceptability before it should expand aggressively. There were 140 shops at the end of February 2001. They included 72 self-operated shops and 68 franchised shops run by independent third parties.

WORKING CAPITAL AND LIQUIDITY

Inventory level was reduced to HK$50 million as at 31 December, 2000 compared with HK$59 million as at 30 June, 2000.

Net cash outflow from operating activities was HK$0.8 million for the reported period. Cash balance at the period end amounted to HK$5.8 million. Outstanding bank loans were reduced to HK$44 million, as compared with HK$54 million as at 30 June 2000.

The debt equity ratio as at 31 December 2000 was 0.5. The current ratio as at the same date was 1.0, and the quick ratio was 0.4.

STAFF

As at 31 December, 2000, the Group had a total staff of 1,360 of which 1,354 were employed in the PRC for the Group's manufacturing and retailing businesses.

The Group provides employee benefits such as staff insurance, retirement scheme, discretionary bonus and share option scheme and also provides in-house training programmes and external training sponsorship.

PROSPECT

The imminent entry of China to the WTO will certainly stimulate the demand for quality consumer products including fashion wear in China. "Fun" brand has been well accepted as an elegant, delightful, and relaxed casual wear by the large group of emerging young customers in China.

The newly implemented re-energizing programme will further improve the company's product quality and services. "Fun" brand will maintain to be competitive in the ever growing market. The Group will continue its "mix and match" strategy to educate and attract the customers, and stimulate their emotion to buy "Fun" products. Effective promotion campaigns innovated with lively themes and stories will be constantly launched.

The Group plans to open its first sports wear shops carrying "L.A. Gear" brand in China before the end of the year. The inclusion of L.A. Gear, a well recognized international brand, in the company's China business will further expand the Group's market share. The synergy enjoyed will strengthen the Group's competitiveness. The Group is ready to expand its business when China enters the WTO in the near future.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31 December, 2000, the interests of the directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to section 29 of the Hong Kong Securities (Disclosure of Interest) Ordinance (the "SDI Ordinance") were as follows:

	Shares of HK$0.10 each	
	Personal interest	**Corporate interest**
Tan Sim Chew	54,050,226	71,515,000 *
Chen Miao Zhu	6,500,000	71,515,000 *
Fu Zi Cong	574,000	—

* Tan Sim Chew and Chen Miao Zhu are beneficial shareholders of 60% and 40% respectively of the issued share capital of Crimson International Limited which owned 71,515,000 shares in the Company at 31 December, 2000.

Save as disclosed herein and for shares in subsidiaries held by directors in trust for their immediate holding companies, as at 31 December, 2000, none of the directors or chief executive of the Company had interest in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) as recorded in the register required to be kept under section 29 of the SDI Ordinance.

On 23 February, 2000, the Company granted pursuant to the existing Share Option Scheme of the Company options to subscribe for a total of 19,833,000 shares of the Company ("Options") for a total consideration of HK$3 to three grantees, namely Tan Sim Chew, Chen Miao Zhu and Fu Zi Cong, at 6,611,000 shares each, which are exercisable during the period from 23 August, 2000 to 23 August, 2003 at a subscription price of HK$0.4496 per share. During the six months ended 31 December, 2000, no options was granted or exercised. As at 31 December, 2000, there was no outstanding option except the Options.

Apart from the foregoing, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive 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 SHAREHOLDERS

As at 31 December, 2000, according to the register of interests kept by the Company under section 16(1) of the SDI Ordinance, the persons who were interested in 10% or more of the share capital of the Company are as follows :

	Ordinary shares held	
Tan Sim Chew	125,565,226	*
Chen Miao Zhu	78,015,000	*
Crimson International Limited	71,515,000	

* Tan Sim Chew and Chen Miao Zhu are beneficial shareholders of 60% and 40% respectively of the issued share capital of Crimson International Limited. Their respective interests includes the 71,515,000 shares held by Crimson International Limited.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not in compliance with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules at any time during the six months ended 31 December, 2000.

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 listed securities during the period.

By Order of the Board
Tan Sim Chew
Chairman

Hong Kong, 23 March 2001