

I hereby present to the shareholders the annual reports of Benefun International Holdings Limited (the "Company") and its subsidiaries and associates (collectively referred as the "Group") for the year ended 30 June, 2002.

## RESULTS

For the year under review, the Group's turnover was approximately HK\$138 million, representing an increase of 12.2 percent as compared with HK\$123 million last year. The loss attributable to shareholders, excluding an impairment loss on goodwill relating to the disposal of an associate, was HK\$28.1 million, representing an increase of 7.3 percent as compared with HK\$26.2 million last year.

## DIVIDEND

The directors do not recommend the payment of a dividend in respect of the financial year ended 30 June, 2002.

## BUSINESS REVIEW

In the year under review, the Group had consistently focused its business in China. The Group is currently operating 132 fashion retail shops throughout the country, within which 80 shops are self-operated, and 52 shops are operated on franchise basis.

Compared with the general global market which had been facing economic uncertainties and depressed market sentiments, the fashion retailing industry in China was less affected because the economic and political environments were stable.

Market entries of many international apparel brands in the last few years had made the competition in China very severe. Nevertheless, the Group insisted to enhance its brand awareness and customer acceptability and had managed to expand moderately its market share. To maintain its competitive edge, the Group continued to fine-tune its market positioning. We sold quality and elegant casual wears at competitive prices. Gross margin percentage had inevitably been maintained at a comparatively low level and hence the operating loss continued. Nevertheless, the Group had successfully built up its brand reputation in China. "Fun" brand had been recognized as an elegant, delightful, and relaxed casual wear brand and was liked by a huge group of middle to upper middle sectors of youths in China.

The Group's production facilities had been mostly completed and were supplying significant percentage of high quality garment merchandise to the Group's retail outlets. Although the proportion of export sales was not substantial yet, the Group had been writing increasing number of export sales orders.

In January 2002, the Group had disposed its shares in an associated company, namely, L.A. Resources Limited, as a result of market changes and its decision to concentrate most effort to expand the "Fun" market in China. In accordance with SSAP 30, the goodwill on acquisition of the associate of HK\$10.8 million, which was eliminated against reserves during the year ended 30 June, 2001, had been charged to the consolidated income statement during the reported year as it was determined to be impaired.

**BUSINESS REVIEW** (CONTINUED)

As approved by the shareholders of the Company's extraordinary general meeting held on 20 December, 2001 and confirmed by the sanction of an order of the court dated 11 February, 2002., the authorized capital of the Company was reduced from HK\$100 million divided into 1,000 million ordinary shares of HK\$0.10 each to HK\$10 million divided into 1,000 million ordinary shares of HK\$0.01 each. Such reduction was effected by cancelling paid up capital to the extent of HK\$0.09 upon each of the 802 million ordinary shares in issue as at 26 October, 2001. The authorized capital was restored to its former amount to HK\$100 million by the creation of 9,000 million ordinary shares of HK\$0.01 each.

On 2 May 2002, a placement issue of 160 million new ordinary shares of \$0.01 each at a price of HK\$0.07 each was made through a placement agent to several independent investors. The net proceeds of approximately HK\$11 million was used as general working capital and for repayment of the bank loan.

**PROSPECT**

The Group is dedicated to enhance its market penetration and turnaround its business in the next years. Besides expanding its own shops, the Group will further expand its market through aggressive franchising operation, especially in the booming second-tier cities.

The Group will launch a second line fashion brand known as "Fun-G" meaning "Fun-game" in the coming year. This will fit to the needs of the confined sector of innovative and trendy teenagers in China. They will emerge as a high-spending consumer group in the next decade.

We are optimistic that the economic development and political stability in China will continue. The people's wealth is growing gradually. Their demand for high-valued fashion products and comfortable living place will increase tremendously. The Group is participating in certain property development projects which subordinate its fashion retailing and export businesses.

China's accession to the WTO will bring both threat and opportunities to the local business participants including our Group. We are dedicated to meet these challenges and to turnaround the performance through improvement of overall operational and management efficiency. We will improve our product lines, expand our distribution network, streamline our procurement mechanism, implement effective cost control methods and upgrade the staff efficiency of our work team.

**APPRECIATION**

On behalf of the Board of Directors, I would like to thank all of our shareholders, staff, customers, and suppliers for their genuine and continuous support extended to our Group.

**Tan Sim Chew**  
*Chairman*

Hong Kong , 11 October, 2002