

CHAIRMAN'S STATEMENT

I hereby present to the shareholders the annual report of Benefun International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 30 June, 2006.

The year 2006 saw stable and steady sales growth for the Group, with a year-on-year increase of 6.1 percent for our turnover that amounted to HK\$219.4 million. Nevertheless because of designated programmes on merchandise restructuring and franchise re-alignment, and a new staff option valuation exercise, the Group incurred an operating loss (loss before interest and taxes) of HK\$5.0 million in the year. The net loss attributable to shareholders amounted to HK\$6.1 million, after an adjustment for the fair value of the new share options for HK\$1.6 million. More information on the Group's operating performance can be found in the Management Discussion and Analysis Section of this report.

We continue to develop our market share in the industry with confidence, although our fashion operation was less performing in the reported year. We remain to be highly optimistic on China's economy and on our fashion market. Our merchandise and franchise reform programmes in force will enhance long-term growth in the years to come.

China's economy recorded an upward trend at a high rate in the reported year. The Government implemented macroeconomic measures to control excessive investments. Nevertheless, domestic consumption was encouraged to grow. The resulting government measures fostered a well-shaped fashion market benefiting consumers. Our management monitors closely the economic situation and assiduously expands our share in this pertinent market.

During the year, we continued to develop China's apparel market by further penetrating into existing cities while exploring new ones. We opened more self-managed shops. Yet our ultimate strategy is to expand aggressively through franchising. As a long-term development, we reviewed and restructured our existing franchising mechanism and allowed certain expiring franchisees to lapse without renewal. We are streamlining this operation but will revive a more sophisticated yet attractive franchising operation in the coming year.

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New entrants of many renowned international apparel brands in the market in past years led to severe competition in China. To strengthen our competitive edge, our Fun brand had undergone an aggressive merchandise re-structuring programme in the reported year. Merchandise mix was further fine-tuned to match the style of our elegant but trendy youth segment. This customer group has strong and ever expanding purchasing power. This transitional interruption led to a comparatively lower level of gross margin percentage and a corresponding operating loss. Nevertheless, our strategy to enhance brand value will be a magnet attracting loyal customers. This will secure good market share and constant high profit margin in the coming years.

The property projects in Zhangzhou City of Fujian province were launched smoothly. The first small-scale commercial/residential building with a gross floor area of approximately 1,290 square meters was completed and fully sold. Currently underway is completing the groundwork for another piece of land with a usable floor area of 15,800 square meters. A 22-storey residential/commercial building will be erected for sale in the near future.

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

Tan Sim Chew
Chairman

Hong Kong, 13 October 2006