

## CHAIRMAN'S STATEMENT

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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, 2001

### RESULTS

For the year under review, the Group's turnover increased by 28% over fiscal year 1999/2000 to HK\$123 million. The Group's net loss attributable to shareholders was HK\$26 million (2000: HK\$19 million). This was the consequence of a substantial provision for properties in Hong Kong, closure of loss-making shops in Mainland China, write off of bad debts, and higher marketing cost in improving brand positioning.

### DIVIDEND

The directors do not recommend the payment of a dividend in respect of the financial year ended 30 June, 2001.

### BUSINESS REVIEW

In the year under review, the Group concentrated its business in Mainland China. At present, the Group's network in China comprises 125 shops, within which 69 shops are self-operated, and 56 shops are operated on franchise basis. Presentable mega-stores had been opened while non-profitable shops had been closed during the year.

The apparel consumer market in China had advanced to a more sophisticated and matured stage. The fashion retail operators including the Group had faced harsh competitive situation because many reputable international brands had entered and operated their business in the China market.

To sharpen its competitive edge, the Group had drastically strengthened its brand image and fine-tuned its market positioning. Product design, product quality, shop presentation and customer services had been well improved. The Group had been energized with new marketing strategies implemented through recruitment of expertise personnel. "Fun" brand had a strong presence in the market, and had been well recognized as an elegant, delightful, and relaxed casual wear brand by the large group of emerging youths in China. The Group had successfully worked towards unique market niche positioning, with an aim to secure decent pricing and optimal level of profit margin in the long run.

Foreseeing that China's entry to the WTO will stimulate dramatically the growth of consumer market in Mainland China, the Group has been re-engineering its operating process in both retail and manufacturing levels. The program is ongoing and aims at improving the Group's operating efficiency to eliminate unnecessary costs and utilize resources to full extent. The management believes that the effort will produce result in the coming years when product quality and cost, distribution logistics and service quality will be effectively upgraded, leading to significant improvement in sales and profit margin.

The new factory in Anxi, Fujian had allowed more than 85 percent of the garment merchandise supplied to the Group's retail outlets to be manufactured in-house.

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The Group took a prudent approach in developing its franchise operation. It will only expand aggressively its franchising business when it is more certain that the brand image and shop presentation will be consistently complied with by the nationwide franchisees. Through the effective training program implemented, the Group is optimistic to expand its franchising network at a good pace in the near future.

The Group entered into agreements to sell all of its properties in Hong Kong in September 2001 because there was no sign that the property investment in Hong Kong could yield a satisfactory return. A provision of HK\$6 million had been made on the properties to reflect their net realisable value, which amount has been fully reflected in the profit and loss account.

On 2 May, 2001, a placement issue of 133.6 million new ordinary shares of HK\$0.1 each at a price of HK\$0.115 each was made through a placement agent to several independent investors.

### PROSPECT

The Group is dedicated to achieve business growth and to turn around its performance in the future years. The Group will focus its resources in developing its apparel retailing and manufacturing businesses in Mainland China. In the near future, the Group will also begin developing its export business following its strategy to develop its label "Fun" to be an internationally recognized brand.

The imminent entry of China to WTO in the coming year will expose customers in China to the world of internationally branded products. The Group will keep up "Fun" as a high-valued international brand of quality casual wears well liked by the middle and upper middle sectors of youth in China. These sectors possess strong purchasing power and enjoy being socially recognized through good fashion expression. The Group is facing a lot of good opportunities but tough challenges in the coming year.

### APPRECIATION

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

**Tan Sim Chew**  
*Chairman*

Hong Kong, 5 October, 2001