



On behalf of the Board of Directors (the "Board") of Good Fellow Group Limited (the "Company") and its subsidiaries (the "Group"), I am pleased to present the Group's annual report and audited consolidated results for the financial year ended 30 June 2001. In this third annual report after our flotation, we will report the Group's business development in the past year and will briefly describe the directions and strategies of our future expansion.



MR. NG Leung-Ho,
Chairman of the Company

Financial results

During the year ended 30 June 2001, the Group's business has sustained a steady growth. A total turnover of approximately HK\$225,601,000 was recorded, representing an increase of 1.9% from last year. Gross profit increased by 9.3% to approximately HK\$82,898,000, reflecting a slight increase in gross profit ratio to 36.7% from 34.3% of last year. Increased marketing efforts and the adoption of various cost control measures had contributed to the improvement in gross profit ratio. The basic earnings per share was HK6.6 cents.

Business review

During the year, the design, manufacture and sale of quality men's and ladies' wear and apparel items have been the major business focus of the Group. The Group remains as the nation-wide authorised uniform manufacturer of the Supreme People's Procuratorate of the People's Republic of China (the "PRC"), China Import and Export Commodity Inspection Bureau and the Public Security Bureau of the PRC and the Supreme People's Court. Effective from August, 2001, the Group has also been appointed the authorised uniform manufacturer of the Bank of China (Hong Kong) Limited.



Exterior of the Group's production facilities at Putian City, Fujian Province



Newly constructed production facilities at Putian City, Fujian Province

During the year, the Group continued to implement the internal assessment of quality assurance and control system. Such system has received a favourable assessment in an independent review performed by the Provincial Assessment Centre of the PRC, which, together with the ISO 9002 certificate awarded to the Group last year, confirm that both the level of corporate management and the quality of the Group's products have reached world recognised standards.

Application of proceeds, liquidity and financial resources

In August 2000, the Group successfully raised additional capital through a placement to Goodtop Enterprises Limited, a wholly-owned subsidiary of Cheung Kong (Holdings) Limited. The net proceeds resulted from the placement was approximately HK\$57,000,000, of which HK\$43,200,000 had been applied to acquire 60% equity interest of Hi-Tech Market Limited and its subsidiary (collectively referred as "Hi-Tech Group"). Hi-Tech Group holds 36% equity interest in Global Network Corporation (the "Global Network"), which was established in the PRC and is engaged in the business of computer software and network system development and the provision of data compression enabling services. The balance of such net proceeds had been applied as additional working capital for the Group.

At 30 June 2001, the Group had in aggregate approximately HK\$3,310,000 bank borrowings which were secured by certain properties, bank deposits and corporate guarantees given by the Company and a subsidiary of the Company. The Group's borrowings are primarily denominated in Hong Kong dollars and its cash, bank balances and pledged bank deposits amounted to approximately HK\$100,706,000 as at 30 June 2001. The Group has no significant exposure to foreign exchange fluctuations.



Production line



The Group's gearing ratio as at 30 June 2001 (calculated as bank borrowings to total assets) was approximately 1.0% (2000: 3.7%).

Future Prospects

In the highly competitive garment industry, the Group will continue to consolidate its business of design and manufacture of uniforms in Hong Kong and throughout the PRC with a view to strengthen its presence in the uniform markets. Increasing marketing effort will be deployed in order to boost the sales of the Group's quality men's and ladies' wear. Emphasis will continue to be placed upon maintaining a high standard of management and improving the Group's quality assurance and control system so as to enhance its reputation as a high quality manufacturer in the garment industry.

With China's imminent accession to the World Trade Organisation and the expected economic growth from Beijing to host the 2008 Olympic Games, more opportunities will be available to the benefit of the Group. However, competition from foreign brand suit manufacturers cannot be overlooked. Therefore, the Group will constantly and cautiously explore business and investment opportunities in order to consolidate its position in the garment industry.

To broaden the scope of its business activities and revenue base, the Group has invested in Global Network which is engaged in the development of application software and the provision of related services in the PRC for many years. In recent years, Global Network has successfully designed, developed and implemented management information software and systems for its customers from different industries and achieved profitable current results. Global Network is also an associated company of the Institute of Software, Chinese Academy of Sciences ("the Chinese Academy of Sciences"). It has a team of veteran information technology professionals and a management team with in-depth knowledge of the application software industry. Leveraging on active support from the



Chinese Academy of Sciences, the Board believes that Global Network has strong potential in the application software industry in the PRC. According to the estimation of the PRC government, the software and information technology industry contributes 4.5% to the gross domestic product of the PRC currently, and it is estimated that by 2005, the contribution would increase to 10%. With the introduction of a preferential policy encouraging the development of software and information technology by the PRC government, opportunities in such business are immense. The Board believes that this investment is in line with the Group's strategy of diversifying its business and will benefit the Group in the long term.

Appreciation

On behalf of the Board, I would like to take this opportunity to express my gratitude to the shareholders for their full support. In addition, I also wish to thank the management and all the staff for their continuing dedication, diligence and contribution to the Group.

Ng Leung Ho

Chairman

Hong Kong

23 October 2001