

Chairman's Statement



Mr. NG Leung-Ho
Chairman of the
Company

On behalf of the Board (the “Board”) of Good Fellow Group Limited (the “Company”) and its subsidiaries (collectively the “Group”), I am pleased to present the annual results for the financial year ended 30 June 2003.

FINANCIAL RESULTS

The turnover of the Group for the year ended 30 June 2003 was approximately HK\$208,770,000, representing a decrease of 16% from the preceding year. Profit attributable to shareholders of HK\$40,356,000 was recorded, representing earnings per share of HK1.71 cents.

BUSINESS REVIEW

The Group's core business continued to be focused on the design, manufacture and sale of a range of high-end men's and women's apparel and uniforms. The People's Republic of China (the “PRC”) continued to be the Group's most important market, contributing approximately 89% of the Group's total sales turnover. The year under review witnessed the dramatic outbreak of the Severe Acute Respiratory Syndrome (“SARS”) that adversely affected the retail industry and many other facets of the economy in the affected districts. The resulting diminished market spending in the PRC and the postponed customer orders and shipments have contributed to the Group's reduced sales for the year. In addition, a lesser gain realized from short-term investments was recorded for the year. During the year, the Group's approach towards investment continued to be prudent and cushioned it against the volatile market movement during the SARS period.

While the Group's diversification into the Hi-Tech industry is expected to take on increasing importance in the future, the garment business will continue to provide the Group with a stable platform of revenue income in the immediate future. In this regard, the Group's excellence in product quality and its established working relationships as authorized uniform manufacturer of prominent stakeholders in the PRC, including the Supreme Court of the PRC, the Supreme People's Procuratorate of China, The Ministry of Public Security Bureau of the PRC and certain banking institutions, shall further consolidate the Group's leading position in the PRC.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity position remains robust and continues to adopt prudent funding and financial policies. As at 30 June 2003, the Group's cash and bank balances, which were principally Renminbi and Hong Kong



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dollar denominated, amounted to over HK\$144 million. Responding to the Group's strong cash asset backing, there were minimal borrowing needs on part of the Group which mainly included interest-bearing bank borrowings of HK\$2,969,000. The Group's bank borrowing facilities are secured by certain of the Group's leasehold land and buildings in Hong Kong; pledged bank deposits of HK\$35,448,000; and corporate guarantees given by the Company.

CAPITAL STRUCTURE AND USE OF PROCEEDS

During the year, the Company repurchased 9,600,000 of its ordinary shares on the Stock Exchange with a view to benefiting shareholders as a whole by enhancing the net assets and earnings per share of the Company. In addition, the Company raised additional capital in the year through the placement of warrants to subscribe for new shares in the Company. The resulting net proceeds realised amounted to approximately HK\$24,543,000 and has been utilised for general working capital of the Group and for future investment.

The Group's gearing ratio, measured on the basis of total borrowings as a percentage of total assets, remained at a low level over the two years at less than 1 percent.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The majority of the Group's transactions and borrowings are denominated in Hong Kong dollars and Renminbi, and therefore the Group's exposure to exchange rate fluctuation is relatively insignificant. In general, the Group mainly utilizes its Renminbi income receipt for operating expenditures in China and does not use any financial instruments for hedging purpose.

FUTURE PROSPECT

The Group will continue to place heavy emphasis on maintaining a high standard of management and quality assurance over its products. With the PRC's accession to the World Trade Organisation and the anticipated favorable outlook of the 2008 Olympic Games to be hosted in Beijing, the Group aspire to advancement in investment and business opportunities in the future. The Group's joint venture investment in Global Network Corporation ("Global"), through partnership with the Chinese Academy of Science, began to generate revenue from the sale of its software product "Smartcomprez". The critical technology of "Smartcomprez", developed by Global, holds its own intellectual property right and has obtained patent from the PRC and the USA respectively. It has also passed the international invention screening. In December 2002, Global was enrolled as "Supplier of the China Government Procurement". A series of information compression technology products generated from the "Smartcomprez" application is currently being officially enrolled as the relevant technology standards to be adopted by the Chinese Government. With the aim of cultivating market extension, Global is now studying the utilisation of information storage compression technology in multi-media mobile phone

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cards, and intend to solicitate card manufacturers to co-operate in the development of value-added software for this enormous market. The Group is encouraged by the satisfactory development achieved by Global.

In the interest of broadening its scope of business activities and revenue base, and to complement its highly competitive garment industry, the Group has launched into the fast growing field of industrial application of Nano technology. Nano technology is regarded by all advanced nations as one of the three critical development technologies supporting the major developments in the 21st century (the other two technologies being information technology and bio-technology). Being not only a significant basis of development for various

scientific subjects, such as information science and life science, Nano technology can also become a substantial industry by itself and its application which have been assessed in various discipline include information processing, biological industry, medicines, chemical industry, environmental protection, aviation and space, energy resources, national defense and other different technological sectors. This technology



Official ground
breaking ceremony
of Nanotech
Science and
Technology
Industrial Park

will certainly engender the society's speedy economical development and reform, and therefore have attracted considerable attention by the USA, Japan and other European countries by virtue of its great importance. The research of Nano technology in China is amongst the foremost leading position in the world.

On October 15, 2002, the Group entered into agreement with the Chinese Academy of Science for the establishment of a joint venture, namely Zhongke Nanotech Engineering Center Co., Ltd. ("Zhongke Nanotech"). The Group's partner, the Chinese Academy of Science, is one of the most authoritative research centres in the country. Taking advantage of its prominent research team, its own intellectual patent rights and its production facilities, Zhongke Nanotech immediately throw its results from research in Nano technology into large-scale industrialization shortly after its establishment. The management is convinced that the industry of Nano technology will further strengthen the Group in its future business development and its objective of business diversification.

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To harness the vast development potential of Zhongke Nanotech, and also to better capture the opportunities brought by the 2008 Beijing Olympic, the Group proposes to establish two industrialization plants in the PRC. The Yongfeng plant, being the first base, is located at Haidian District, Beijing and covers an area of 68 acres. The area of the existing plant is 8,000 square meters and it is estimated that construction work for the remaining facilities will be completed within three years. Estimated to cover a total area of 45,000 square meters upon completion of all phases of its construction, the Nanotech Science and Technology Industrial Park will become the most prominent base of Nano technology applied manufacturing in the PRC. The inauguration of the Beijing Nanotech Science and Technology Industrial Park marked the milestone of the Group's success in diversify its business profile into the field of Nano technology application. Accompanied by the abundant scientific research strength of the Chinese Academy of Science in the area of Nano technology, the industrialization plant of Zhongke Nanotech pool together a team of experts in the field of Nano materials, including Dr. Jiang Lei, the chief scientist of the Chinese Special 863 Project of Nano, and his team of more than 40 other researchers. Among these researchers of senior qualification, twelve hold doctoral degrees, twenty hold master's degrees, and twelve are senior researchers. Centred on the Duality Coordination Theory proposed by Dr. Jiang Lei, a number of application technologies and products have been developed in the areas of textile, building material and engineering plastic. Special task-force projects in the field of Nano technology application were implemented in the three broad directions of Nano high elastic engineering plastic new materials, Nano interface materials with amphiphobic and amphiphilic properties (超雙疏／超雙親技術) and Nano self-cleansing materials with hydrophilic and photocatalytic properties. It is anticipated that the facilities can generate profitable contributions in its first year of operation. At present, the Nano materials and products produced by the Beijing industrialization plant of Zhongke Nanotech have extensive applications and their qualities exceed international standards.

The second industrialization plant of Zhongke Nanotech is proposed to be established in the Suzhou Industrial Park of the PRC and covers an area of 150 acres. It will become a large industrialization plant of Nano technology covering the prime area of the Changjiang Delta upon completion. Construction work for this new plant has begun since the second half of 2003 and is expected to be completed within three years. The additional production facilities offered by this new plant will extend Zhongke Nano's scale of industrialization, strengthen Zhongke Nanotech's leading position in the market and fulfill the flourishing market demand for Nano products as well.

Within a period of less than 12 months of the establishment of Zongke Nanotech, this company has already obtained over 30 patent technological applications in Nano-technology through either self-development or injections by the Chinese Academy of Science. Applications for patent rights are being made for these technologies. Since the application technology employed by Zhongke Nanotech was self-developed, the relevant intellectual property right naturally belongs to Zhongke Nanotech and it therefore enjoys obvious advantage.

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At present, Zhongke Nanotech has signed technology agency agreements with certain major PRC enterprises of leading position in their respective industries to jointly develop Nano products in different horizons.

The high elastic Nano plastic material launched by Zhongke Nanotech has already commenced production upon receiving order of 520 tons from customers, and should begin to contribute profit in the coming year. In the area of textile, where the application of Nano technology is concerned, the Chinese market is enormous with variously extensive up-stream and down-stream products. The textile material when treated with nano-technology developed by Zhongke Nano exhibit superior features such as water and grease repellent properties. It is the plan of Zhongke Nanotech to provide Nano patented foundational matrix materials and technology agency

service to major textile and garment manufacturers in the mainland to bring forth encouraging growth in revenue. Other products successfully produced by Nano technology include Nano high



technology medical mask and surgical gown, which were developed to address the needs arisen out of SARS. In the area of building materials, the Nano environmental protection self-cleansing coating material produced by Nano technology when applied to glass or other materials will insulate on the material surface a self-cleansing thin coating which have hydrophilic and photocatalytic properties. The resulting environmental-friendly process enables the forming of an even liquid membrane on the material surface and also assists the decomposition of organic precipitate.

Concerning the funding of the above projects, as customer orders are already being laid down with Zhongke Nanotech, it is intended that the construction works will be financed by the Group's internally generated resources as well as positive cash flow from existing operations undertaken in the Beijing plant of Zhongke Nanotech. Accordingly, it is anticipated that there will not be any undue financing needs on part of the Group in the foreseeable future.



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

The objective of the Group is to rank amongst the outstanding Nano technology manufacturer in the world. Leveraging on the professional knowledge of the Group and supported by its initiative in research and development and its commitment for product quality, management is highly optimistic of the future business environment with infinite development potential for business in Nano technology. We are convinced that the Group's entering into the hi-tech business in Nano technology will go on flourishing. We are determined to become the best of the industry and reward our shareholders with increasing returns.

EMPLOYEE

As at 30 June 2003, the Group employed approximately 850 employees in our factory premises and approximately 17 staff in Hong Kong. The Group employs and remunerates its staff based on their qualifications, experience and performance. On-going training sessions were conducted to enhance the staff's capabilities. In addition to basic salary payments, other benefits for eligible candidates include contributions to mandatory provident fund, group medical and accident insurance. The salaries and allowance of employees for the year ended 30 June 2003 amounted to approximately HK\$8,090,000.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to take this opportunity to express my sincere gratitude to our management team and our staff for their dedication and hard work over the past year; and not less; our business associates and shareholders for their continued support of the Group.

Ng Leung Ho

Chairman

Hong Kong

27 October 2003

