

Chairman's Statement

On behalf of the Board of Directors (the "Board") of Good Fellow Group Limited (the "Company"), I am pleased to present the annual report of the Company for the financial year ended 30 June 2004.

BUSINESS REVIEW

The financial year 2004 was full of challenges and changes. The Group's garment business continued to be the key revenue generator and had established a strong foothold in the manufacture of uniforms for government authorities and other organizations in the People's Republic of China (the "PRC"). It provided a solid revenue base to finance the Group's diversification in the nano-technology business and other high-tech business arenas. The Group's joint venture undertaking in nano-technology business made considerable progress during the year under review, and saw the commercialized application of nano-technology through various contracts with leading PRC manufacturers and companies, covering textile, biotechnology, and building and construction materials. The marked increase in profit sharing from the Group's investment in nano-technology business was a clear sign of the realization of the Group's objective in business diversification. During the year under review, the Group recorded turnover and profit attributable to shareholders of HK\$189.0 million and HK\$30.3 million respectively.

The Board recommended a final dividend of HK0.2 cent per ordinary share for the year ended 30 June 2004.

The Garment Business

Against a backdrop of fierce competition in the apparel market in the PRC, the Group continued to place heavy emphasis on excellence in product quality and marketing network. The Group had already gained wide recognition in its product quality and forged close relationships with many government authorities in the PRC. The Group was honored to be the authorized uniform manufacturer of government authorities and organizations in the PRC, including the Supreme Court of the PRC, the Ministry of Public Security Bureau of the PRC and certain banking institutions. These provided the Group with a competitive edge to pursue more uniform contracts in government and enterprise sectors in the PRC market.



The Group's showcase booth at fashion exhibition

In the retail and distribution of garment business, there was growing competition from local and foreign apparel brands in the PRC market. To stay ahead of the competitors, the Group was committed to enhancing the value-added features of the garment products, including the addition of nano functions. Though the sale of high-end nano-treated apparel goods was still in its initial stage, they had received favorable response from customers, which could enhance our market competitiveness.



Mr. NG Leung-Ho
Chairman of the Company

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The Group also bolstered sales and marketing initiatives to strengthen its corporate identity and brand awareness. During the year, the Group appointed renowned screen celebrity as spokesperson for the Group's products and rolled out a series of effective television commercials to enhance its market share in the PRC. In addition, the Group actively expanded its reach in the PRC market through the establishment of more outlets in various provinces, such as Beijing and Shixi. The Group had already boasted a sales and distribution network across various provinces and cities in the PRC, providing a strong backbone to gear up for future growth momentum.

Investment in Joint Venture Nano-technology Business

The Group was delighted to see the commencement of the realization of the Group's diversification initiative to widen its revenue sources. The Group's investment in nano-technology business, through Zhongke Nanotech Engineering Center Co., Ltd. ("Zhongke Nanotech"), the joint venture between the Group, the top-notch Chinese Academy of Science and other strategic shareholders in 2002, posted a profit sharing of HK\$10.5 million during the year under review. This heralded the beginning of the Group to realize the gain in the commercialization of the nano-technology through the proprietary intellectual patent rights and large-scale production facilities of Zhongke Nanotech. The Beijing headquarter of Zhongke Nanotech currently contained a strong research team of over 40 scientific researchers, including Dr. Jiang Lei, the chief scientist of China 863 project in nano-technology, and various senior researchers of doctoral and master's degrees. More than 30 patents of the nano-technology research projects had already been filed.

Zhongke Nanotech had already firmly established itself as the leading nano-technology developer in the PRC. During the year under review, Zhongke Nanotech had signed collaboration agreements with manufacturers in the PRC across different industries, including textile, medical goods, biotechnology products, and building and construction materials. The business models comprised i) technology transfer and supply of nano-technology raw materials, ii) joint research and development, and iii) mass production in selected nano-technology products. These contracts will provide an established profile for Zhongke Nanotech to further explore other business opportunities in the PRC market.

Textile Goods

Zhongke Nanotech has contracted with Erdos group of companies, the leading supplier of wool apparel in the PRC for the transfer of patented technology in the manufacture of self-cleansing nanopashm. In December 2003, Erdos inaugurated the market launching of the series of nano wool apparel products made possible with the technology provided by Zhongke Nanotech and received wide attraction.

Building and Construction Materials

Zhongke Nanotech was honored to have received the contract to supply the self-cleansing nano glass for the outer cylindrical glass wall of the prestigious PRC State Emporium in Beijing. The hydrophilic self-cleansing nano glass and its accompanying photo-catalytic decomposition process would maintain the cleanliness of the outer shield of the building and minimize periodic cleansing cost. The PRC State Emporium had become a landmark in the PRC, as it was the first large scaled construction project applying nano glass. It could also help demonstrate the state-of-the-art nano-technology of Zhongke Nanotech.



The PRC State Emporium

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Zhongke Nanotech was currently in talks with a number of leading PRC manufactures in their respective industries on the possibilities of the technology transfer or nano-technology development. In view of the growing potential of the nano-technology business, the Group increased its equity interests in Zhongke Nanotech by way of an acquisition completed during the year in April 2004, as a result of which the Group's effective equity interest has increased from 33% to 55% and became the largest shareholder of Zhongke Nanotech.

Investment in Hi-Tech business of Software Compression

The Group's investment in Global Network Corporation also showed continued progress during the year under review. The "Smartcompresz" series of information technology compression products, launched by Global Network Corporation, had been scientifically proven to execute superior electronic data compression. Its compression efficiency even far exceeded other similar products in the international market. In July 2004, the PRC Bureau of Information Technology Industrialization had recommended the PRC State Ministry to incorporate Smartcompresz technology as the standard of China office software fundamental technology and the standard of computer information compression technology. Indication has been received from the PRC Government of granting funding support to further technological development of Smartcompresz technology. The Government's rapport would help propel the Group's development and industrialization of the Smartcompresz technology.

PROSPECTS

While the Group's diversification into nano-technology and hi-tech industry is expected to take on increasing importance in the future, the garment business will continue to provide the Group with a reliable revenue base to embrace further business opportunities ahead. The Group will continue to devote sales and marketing efforts to substantiate its market share in the PRC amid fierce competition from local and foreign apparel brands.



In view of the growing business opportunities of nano-technology projects in the PRC, Zhongke Nanotech was on course to construct the second industrialization plant in Suzhou province of the PRC, which would be intended for nano high elastic plastic and nano substrate production. The construction of the plant with site area measuring 150 acres is expected to be completed in 3 years' time and will become one of the prominent nano-technology commercialization bases in Changjiang Delta River region. With the expansion of production capabilities, the Group is fully confident that Zhongke Nanotech could move into full gear to embrace the burgeoning nano-technology potential in the PRC market.

APPRECIATION

On behalf of the board, I would like to express our gratitude to the shareholders, customers, suppliers and professional advisors for their support over the past year, and to sincerely thank our management and staff for their dedication and diligence.

Ng Leung Ho
Chairman

Hong Kong, 26 October 2004