

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 2006.

RESULTS AND DIVIDENDS

For the financial year ended 30 June 2006, the Group recorded net profit attributable to shareholders of HK\$83.2 million, equivalent to earnings per share of HK2.72 cents. The directors do not recommend the payment of a dividend in respect of the current year.

BUSINESS REVIEW

The year 2006 was a transformational milestone for the Group. During the year, the Company completed the acquisition of ecological forestry business and established a strong foothold in this new market. The directors have identified the ecological forestry business as a unique opportunity with highly favorable long-term prospect; and consider the diversification into this new market of high-growth potential will complement the highly competitive apparel market and improve the Group's earnings base and asset quality. The directors are pleased to report that the ecological forestry business has already posted a post-acquisition profit contribution for the financial year under review.

On the side of the Group's traditional apparel business, during the year under review, the People's Republic of China ("PRC") economy remained on the growth while the garment retailing industry continues to strive. However, price competition from newly introduced competitors who open new shops in bustling areas were on the rise. Despite the fierce competition in the PRC apparel and uniform market, with a series of efforts in rectifying its operations and promulgating an expanded sales network, the Group made progress in its financial performance for the year under review.

The Ecological Forestry Business

The Group's business operations in the newly diversified ecological forestry business operates by making use of patented application for technologies in accelerated plant growth and the modified tree specie *Broussonetia Papyriferalvent* in its plantation process. The patented application was originally researched and developed by the Botanical Department of the Chinese Academy of Science. The genetically modified tree specie *Broussonetia Papyriferalvent* is a *Moraceae* plant under the category of Deciduous Trees and its highly resistance characteristic allow trees to grow in environments otherwise unfavorable to other plants. This ability enhances economic efficiency and better productivity through higher land utilization and lower labor costs. The trees also facilitate the growth of a kind of soil micro-organism that may serve to improve the quality of infertile and polluted land on which the plantation is carried out, thereby turning the saline soil into cultivable farmland. Because of the potential improvement to the very vast reserve of wasted agricultural land with poor soil quality within the PRC country, support of development has been received from the PRC State Forestry Bureau. Cultivated *Broussonetia Papyriferalvent* has a wide range of usage, including making high quality paper and serving as general paper-making raw materials and animals' grains.

The accelerated growth period of *Broussonetia Papyriferalvent* appears to offer a solution to the high domestic demand in wood pulp from the paper making industry in the PRC. To capitalise on the Group's technical know-how advantage, plans have been drawn to extensively plant the genetically modified tree specie in various provinces in the PRC, principally catering for the high domestic demand in wood pulp from the PRC paper making industry. It is foreseen that the majority of sales for this newly diversified business will be made to downstream manufacturers of wood pulp and paper in the

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PRC. Currently, the Group's forestry business operation has its own saplings rearing facility and leased agricultural premise for direct plantation of the modified tree specie. The Group's forestry operation is undertaken under various business methodologies, including (i) direct sale of saplings; (ii) self plantation; whereby the Group planted the modified tree specie with its own resources and reaped the full benefit; and (iii) subcontracted plantation; whereby the Group entered into joint-venture undertakings with other agricultural units and take advantage of their resources in planting the modified tree specie. The first plantation season has already commenced in April 2006 and harvest of the first batches of matured modified tree specie *Broussonetia Papyriferalvent* will begin in the later months of year 2006. In addition, the Group's forestry business also comprise a secondary operation in pinewoods vested with two pine forest fields in Shanxi province in the PRC, namely, the Shanxi Xiyang Dongfeng Forest Farm and the Shanxi Xiyang State-run Bixiaguan Forest Farm, measuring approximately 47,090 Chinese mu in aggregate by area. These operations complement the Group's primary forestry operation in the modified tree specie *Broussonetia Papyriferalvent*.

The market price of quality raw materials to the paper making industry was generally on the soar over the past few years. The directors therefore foresee very large business opportunity ahead with this new business. In view of the anticipated rapid expansion and to increase the Group's forestry resources, the Group has entered into various cooperative framework agreements for plantation of the modified tree specie in various regions of the PRC including Guangxi, Fujian, HuBei and ChongQing. These cooperative pursuit aims at availing additional forest land resources to the Group in expanding its ecological forestry business. As plantation scale expand, the Company will actively identify other potentially suitable forest sites for rearing the modified tree specie. The relevant cooperative framework agreements are subject to inception of formal agreements. Armed with the newly granted patent and technological advantage, the directors are confident that the strong demand will bring about highly favorable marketable opportunities, as indicated by a profit guarantee underlying the acquisition of an aggregate net profit after tax of no less than HK\$200 million to be attained by the forestry business for the two ensuing years ending 31 December 2006 and 2007, for which the Group will be able to enjoy a 70% share.

The Garment Business

Since 2005, to address the fierce competition of the garment business, the Group has rectified its operational management and intensified its marketing and promotional campaign, with an aim to promulgate a nationwide sales retail network and broaden the sales channel in the PRC. Through the expansion of sales network to the neighboring areas on a regional franchised agency basis, the Group has succeeded in setting up an increased number of sales outlets in provincial and municipal levels including Beijing, Hebei, Inner Mongolia, Shandong, Shanxi, Jiangsu, Fujian, Guangdong, Henan, Yunnan, Guizhou, Anhui, Xinjiang and etc. Accompanying the implementation of effective risk and resource sharing with the franchisee agents, results were achieved during the year which enables the Group to concentrate on products with higher profit margin. In addition, through the collaborative input from the participating regional franchisee agents, the Group has successfully built up its sales information database that enables analysis of sales trend with different regions and enhances rapid managerial responses to market development.

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The series of promotional initiatives launched by the Group during the year includes the appointment of renowned screen celebrity as the brand image ambassador and rolled out a series of television advertisements to increase customers' brand awareness. These promotional initiatives also attracted potential franchisee interested in participating in the Group's garment retail network. In addition, the Group has made appropriate accommodating measures and successfully seasoned the impact from the retirement of Mr. Ng Leung Tung, the Company's former deputy chairman and executive director, from direct participation in the Group's operational management as a result of his personal health concerns. These measures have proven to be successful in turning around the Group's operations. On the side of uniform merchandising, these businesses continued to account for certain proportion of the Group's business and tended to respite after last year's adjustment in sales strategy and consolidation of merchandising team. However, the profit margin remained in a relatively low level owing to various market factors and heavy price bidding peculiar to this market segment. The Group sees its future direction in shifting from the uniform segment to more emphasis on products under the Group's own brand name. Overall, the directors are pleased to report that signs of recovery are being observed for the Group's profit margin, which has returned to a more satisfactory level.

It is the Group's business objective to place primary emphasis to product quality and such aspiration has continued to win recognition for the Group's products. During the period, in order to keep abreast of latest fashion trends and production technologies, besides participating in large-scale garment production exhibitions, the Group also dispatched its production management team to overseas garment factories for experiential interchange. In December 2005, the Group made the landmark to be awarded the "Chinese Well-known Trademark" by the PRC State Administration for Industry & Commerce. The recognition of the prestigious status for the Group's "Good Fellow" branding shall further confer competitive advantages in the Group's development of its garment businesses in the forthcoming year. Nevertheless, the Group's management will not concede with its success and continue to make it the target for the upcoming year to enhance its production proficiency and facilities.

The Group has enjoyed over the years wide recognition in its product quality and forged close cooperation relationships with many government authorities and organisations in the PRC. The Group is the designated garment manufacturer of the Supreme Court of the PRC, the Supreme People's Procuratorate, the Inspection and Quarantine of Goods Bureau of the PRC, the Ministry of Public Security Bureau of the PRC and certain banking institutions. The Group's experience and goodwill gained from years of cooperation with PRC government departments shall continue to serve its competitive edge with the industry.

Investment in Nano-Technology Business

The Group's investment in Nano-technology was made through a strategic alliance with the top-notch Chinese Academy of Science in establishing Zhongke Nanotech Engineering Center Co., Ltd. ("Zhongke Nanotech"). Since then, the international recognition of nano-technology as the core foundation supporting other major developments in the 21st century has continued to grow. New applications with the use of nano-technology are being continually invented in the international arena. Notwithstanding its brief period since establishment, Zhongke Nanotech has fast established itself as leading developer of nano-technology in the PRC. The technological foundation of Zhongke Nanotech has already reached its maturity and the viability of various nano-technology applications developed by Zhongke Nanotech has been demonstrated by actual commercial utilization. Nano-technology applications developed by Zhongke Nanotech cover different industries including textile, medical goods and biotechnology products with more than 30 patents of the nano-technology research projects filed.

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Presently, the Beijing headquarter of Zhongke Nanotech serves mainly as a research and centralised testing center and contained over 40 scientific researchers and various senior researchers of doctoral and master's degrees. The first phase of construction of Zhongke Nanotech's industrialization plant in Suzhou province has already drawn its completion, and has commenced the production of industrial product of the nano metallic paint; nano interior and exterior paint; and nano paste that will have very wide applications as surface coating in various industries by virtue of its superior anti-oxidation and self-cleansing properties. With the very strong technical foundation from association with the top-notch Chinese Academy of Science as well as self-owned patents, the Group looks forward to satisfactory growth in financial performance of Zhongke Nanotech in the future.

PROSPECTS

Going forward, the Board sees the Group's newly diversified ecological forestry business as the turbo engine to the Group's growth momentum. The Group's newly diversified business has already begun to post profitable contributions. Capitalising on the global ecological emphasis, the Board sees the business development potential of this new business as very promising. The Group will actively seek out suitable forest lands with growth potential in order to further expand our ecological forestry resources and develop related business. Pursuant to this expansion objective, on 16 October 2006, the Group entered into a conditional agreement for the acquisition of an additional 30 per cent equity-holding in the ecological forestry business.

The reform of the PRC forestry industry has reached the final stage of lifting previous confinements. Along with the new development, the Group stands to benefit from opportunities arising from the conversion of State-owned forest fields and the incentives provided to encourage domestic and foreign participation in the industry. In particular, in view that the country is facing a serious unfulfilled market demand with wood pulp materials, the hybridized advancement of the traditional tree specie *Broussonetia papyrifera* to its high growth variety suitable for frequent cyclic harvest methodologies; and the forthcoming country-wise promotion of the modified tree specie as one of the major wood pulp sourcing tree specie will confer immense development potential as well as generating increasing future revenue sources for the Group.

Meanwhile, the garment business will continue to provide the Group with a reliable revenue base. While the Board anticipates the competition in the PRC's apparel market will continue to be severe, the Board is confident that the Group has successfully seasoned its difficult trial period and begun to turn around the operations. Nevertheless, the Group will review its marketing strategy periodically and adjust to the market environment as warranted, and will devote sales and marketing efforts to substantiate its market share in the PRC amid fierce competition from local and foreign apparel brands. As mentioned before, the Group's active expansion of its reach in the PRC market through the establishment of more outlets in various provinces has already proceeded to important cities such as Beijing, Shandong and Shanxi, providing a solid foundation to the garment business.

The Board sees the Group as heading on the right track. Leveraged on the Group's competitive strength in its chosen fields, the Board believes that the Group is geared to reap its greater achievements in the upcoming years.

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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, 23 October 2006