HUAFENG
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Huafeng Group Holdings Limited
華豐集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 364)

DISCLOSEABLE TRANSACTION IN RELATION TO THE DISPOSAL OF 100% OF THE ISSUED SHARE CAPITAL OF ELITE LEAGUE INVESTMENTS LIMITED

On 2 August 2011, the Vendor, a wholly owned subsidiary of the Company, and the Purchaser entered into the Disposal Agreement, pursuant to which the Vendor agreed to sell and the Purchaser agreed to acquire the Sale Shares of the Target Company for a total consideration of HK$103.2 million, of which (i) HK$50 million will be settled by cash upon Completion; and (ii) HK$53.2 million will be settled by cash three years from the date of Completion.

As the relevant percentage ratios (as defined in Rule 14.04(9) of the Listing Rules) applicable to the Disposal exceed 5%, but less than 25%, the Disposal constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules.

THE DISPOSAL AGREEMENT DATED 2 AUGUST 2011

Parties

Purchaser:	Golden Treasure Star Investments Limited, a company incorporated in the British Virgin Islands with limited liability; and
Vendor:	Treasure Wealth Assets Limited, a company incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of the Company

The ultimate beneficial owner of the Purchaser is Zeng Huan Si holding 100% of the Purchaser's issued share capital.

The Directors confirm that, to the best of the Directors' knowledge, information and belief having made all reasonable enquires, the Purchaser and its ultimate beneficial owner are Independent Third Parties independent of the Company and its connected persons, and none of them is a party acting in concert with any substantial shareholder of the Company.

Asset to be disposed

The asset to be disposed under the Disposal Agreement is the Sales Shares, being the entire issued share capital of the Target Company.

CONSIDERATION

The consideration payable by the Purchaser to the Vendor for the proposed Disposal amounts to HK$103.2 million, of which HK$50 million will be settled by the payment of cash upon Completion and HK$53.2 million will be settled by cash three years from the date of Completion. Interest shall accrue on the outstanding amount of HK$53.2 million at 1.75% per annum and be paid annually in arrear. As such, the Company will receive the HK$53.2 million together with any interest accrued thereon.

As at 31 March 2011, the unaudited consolidated net asset value of the Target Group was approximately HK$76.3 million; its major components include land, property, plant and equipment, inventories and account receivables less accruals and payables and loan.

The unaudited consolidated net losses of the Target Group before and after taxation for the six months period ended 31 March 2011 amounted to approximately HK$6.8 million and approximately HK$7.9 million respectively.

The Consideration was determined on an arm's length basis with reference to the following:

(i) the valuation of the unaudited consolidated market value of net asset of the Target Group for the eight months period ended 31 May 2011 was deficit approximately HK$38.7 million.

(ii) The margin of the industry is squeezed by the continuous rising production cost (including but not limited to the labour costs and the cost of raw materials), in particular to the cities along the coastal region, such as Fujian Province where the PRC Company is located.

(iii) In order to remain competitive, capital expenditure to upgrade its production facilities is required to improve the quality of the products. However, in view of the business outlook of the Target Group, the Board considers it may not be in the interest of the Company to spend additional capital expenditure in the Target Group.

(iv) The decrease in demand and the increased price sensitivity from customers of the PRC Company eroded its profitability.

In view of the above, the Directors are of the view that the Consideration is fair and reasonable and the Disposal Agreement is on normal commercial terms.

CONDITIONS PRECEDENT OF THE DISPOSAL AGREEMENT

The Completion is conditional upon:–

(i) due diligence review on the Target Group having been completed to the satisfaction of the Purchaser;

(ii) the warranties given by the Vendor as defined in the Disposal Agreement in respect of the Target Group being true, accurate and not misleading; and

(iii) where applicable, the obtaining of all approvals, or consents in respect of the Disposal Agreement and all transactions contemplated thereunder.

Conditions precedent (i) and (ii) above can be waived at the absolute discretion of the Purchaser.

Completion shall take place within 7 business days after the last condition precedent is fulfilled or waived. In the event that the Conditions Precedent shall not be fulfilled on or before 30 September 2011 (or such other date as the parties may agree), the Disposal Agreement shall lapse and neither party shall be obliged to perform any further obligations under the Disposal Agreement or have any claim against any other of them save and except any antecedent breach.

SECURITY

The outstanding amount of HK$53.2 million of Consideration is secured by 50% of the Sale Shares.

COMPLETION

Completion of the Disposal Agreement shall take place within 7 business days after all the conditions are fulfilled or waived.

INFORMATION ON THE TARGET GROUP

The Target Company is a company incorporated in the British Virgin Islands with limited liability, the issued share capital of which is wholly owned by the Vendor. The Target Company wholly owns the PRC Company which is principally engaged in the provision of fabric processing services. Upon Completion, the Target Group will cease to become the subsidiaries of the Group.

FINANCIAL INFORMATION OF THE TARGET GROUP

A summary of the consolidated financial information of the Target Group under the International Financial Reporting Standards is shown as follows:

HK$'million	**For the eight months period ended 31 May 2011 (Unaudited)**	**For the six months period ended 31 March 2011 (Unaudited)**	**For the six months period ended 31 March 2010 (Unaudited)**	**For the year ended 30 September 2010 (Audited)**	**For the year ended 30 September 2009 (Audited)**
Turnover	91.0	61.0	62.4	151.3	118
Net (profit)/loss before taxation	10.1	6.8	2.2	(3.8)	(0.1)
Net (profit)/loss after taxation	11.1	7.9	2.9	(2.1)	1
Net asset value	72.9	76.3	73.5	78.3	78.0

FINANCIAL EFFECT OF THE DISPOSAL

The Company will realize an unaudited loss of approximately HK$154.6 million from the Disposal based on the unaudited financial information for the eight months period ended 31 May 2011. The loss is based on (i) the sale proceeds from the Disposal less the carrying amount of approximately HK$72.9 million of the unaudited net asset value of the Target Group; (ii) the write-off of the inter-company balances of approximately HK$154.9 million and (iii) the write-off of the goodwill approximately HK$30 million. The Company intends to apply such net proceeds for general working capital for the development of the Group's other potential business. Upon Completion, the Target Group will cease to become the subsidiaries of the Group.

REASONS AND BENEFIT OF THE DISPOSAL

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of fabric processing services and manufacture and sale of yarns, fabrics and blankets.

The Board has from time to time reviewed the business operations and financial position of the Group with an aim to achieving the best interest for the Company and the shareholders of the Company.

As mentioned in the interim report for the period ended 31 March 2011 of the Company, although the global economy gradually recovered, the significant increase in oil prices and raw material prices, constant growth in labor costs and the increasing market competition posed great challenges to the business environment of the PRC's textile industry. Furthermore, the consistent appreciation of the Renminbi against United States dollars led to the decreased demand from some of the overseas clients. Despite the above unfavourable factors in the PRC textile industry, the Company tried to enhance the competitiveness of the PRC Company by diversifying into different type of manufacturing, including the development of the production of blankets in Jiangxi, the PRC. Unfortunately, all the above negative factors continued to erode the profitability of the PRC Company.

The PRC Company recorded a turnover of approximately HK$91.0 million, HK$61.0 million and HK$62.0 million for the eight months period ended 31 May 2011, six months period ended 31 March 2011 and 2010, which was fairly stable. However, its contribution for unaudited net loss was approximately HK$7.9 million and approximately HK$2.9 million for the six months period ended 31 March 2011 and 2010 respectively. For the eight months period ended 31 May 2011, the unaudited net loss of the PRC Company was approximately HK$11.1 million.

Save for the above, the unaudited consolidated statement of financial position of the Target Group for the eight months period ended 31 May 2011 did not reflect its financial position after taking into accounts of the deficit based on the valuation of the market value of net asset of the Target Group for the eight months period ended 31 May 2011 in total of approximately HK$38.7 million.

In view of the above negative factors of the PRC Company, the Board considers that the Disposal are beneficial to the Group in light of the tough economic environment, increasingly intense competition in the provision of the fabric processing services and unaudited net loss of the PRC Company for the six months period ended 31 March 2011 and 2010 were approximately HK$7.9 million and approximately HK$2.9 million respectively. The Board do not expect any turnaround of the operational result of the PRC Company after assessing the 12 months forecast of the PRC Company. Instead of continuing to invest in the PRC Company, the Disposal gives the Group a good opportunity to (i) divest its investment from a loss recurring business to other potential business opportunity; (ii) avoid further suffering from operational loss in the coming years; and (iii) use the proceeds from the Disposal to facilitate the Group to invest in other potential business.

After considering all the above factors, the Board is of the view that the terms of the Disposal are (i) fair and reasonable; (ii) on normal commercial terms; and (iii) in the interests of the Company and the Shareholders as a whole.

GENERAL

As the relevant percentage ratios (as defined in Rule 14.04(9) of the Listing Rules) applicable to the Disposal exceed 5%, but less than 25%, the Disposal constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules.

If the Disposal Agreement is completed on or before 30 September 2011, the Company will realize a loss of approximately HK$154.6 million which may have adverse effect on the results of the Group for the financial year ended 30 September 2011. **In this regard, the Shareholders and potential investors are advised to exercise caution in dealing in the shares of the Company.**

DEFINITIONS

"Board"	the board of the directors of the Company
"Company"	Huafeng Group Holdings Limited , a company incorporated in the Cayman Islands with limited liability, whose Shares of which are listed on the Stock Exchange
"Completion"	completion of the Disposal Agreement in accordance with the terms and conditions of the Disposal Agreement
"Consideration"	the consideration payable to the Vendor by the Purchaser for the Disposal
"Director(s)"	director(s) of the Company
"Disposal"	the disposal of the entire issued share capital of the Target Company by the Vendor to the Purchaser pursuant to the terms and subject to the conditions set out in the Disposal Agreement

"Disposal Agreement"	the sale and purchase agreement dated 2 August 2011 entered into between the Vendor and the Purchaser in relation to the Disposal
"Group"	the Company and its subsidiaries
"Independent Third Party(ies)"	party(ies) independent of and not connected with any of the Directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or an associate (as defined under the Listing Rules) of any of them
"HK$"	Hong Kong Dollars, the lawful currency of Hong Kong
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Sale Shares"	200 ordinary shares of US$1 each in Target Company, representing the entire issued share capital of Target Company
"Shares"	share of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Elite League Investments Limited, a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of the Vendor
"Target Group"	the Target Company and the PRC Company
"PRC Company"	Shishi City Lingfeng Dyeing & Weaving Co., Ltd. 石獅市凌峰漂染織造有限公司, a wholly owned foreign enterprise established in the People's Republic of China and is owned by the Target Company

"Purchaser"	Golden Treasure Star Investments Limited, a company incorporated in the British Virgin Islands with limited liability
"Vendor"	Treasure Wealth Assets Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company

By order of the Board
Huafeng Group Holdings Limited
Cai Yangbo
Managing and Executive Director

Hong Kong, 2 August 2011

As at the date of this announcement, the executive directors of the Company are Mr. Cai Zhenrong, Mr. Cai Zhenyao, Mr. Cai Zhenying, Mr. Cai Yangbo and Mr. Choi Wing Toon. The independent non-executive directors of the Company are Mr. Lawrence Gonzaga, Ms. Choy So Yuk, JP and Mr. Wong Siu Hong.