

REPORT OF THE DIRECTORS

The directors of the Company are pleased to present their report and the audited financial statements of the Company and of the Group for the year ended 30 September 2003.

CHANGE OF NAME

Pursuant to a special resolution passed at the extraordinary general meeting of the Company held on 22 July 2003, the Company changed its name from Huafeng Environmental Protection Textile International Group Limited to Huafeng Textile International Group Limited.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of its principal activities of the subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

Details of the segment information of the Group for the year ended 30 September 2003 are set out in note 5 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 30 September 2003 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 20 to 50.

The directors recommend the payment of a final dividend of HK2.25 cents per ordinary share in respect of the year ended 30 September 2003 to the shareholders whose names appear on the register of members on 13 February 2004.

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FIXED ASSETS

Details of the movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of the movements in the Company's share capital and warrants during the year ended 30 September 2003, together with the reasons therefor, are set out in note 21 to the financial statements.

Details of the Company's share option scheme are set out in note 21 to financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of the movements in the reserves of the Company and of the Group during the year are set out in note 22 to the financial statements.

At 30 September 2003, the Company had distributable reserves of approximately HK\$286,610,000. Under the Companies Law (Revised) of the Cayman Islands, the share premium account of the Company of approximately HK\$265,851,000 as at 30 September 2003, is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers and the Group's largest customer accounted for approximately 37% and 11%, respectively, of the Group's total sales for the year.

Purchases from the Group's five largest suppliers and the Group's largest supplier accounted for approximately 23% and 5%, respectively, of the Group's total purchases for the year.

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MAJOR CUSTOMERS AND SUPPLIERS (continued)

None of the directors of the Company or any of their associates or any shareholders (which to the best knowledge of the directors own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the year were as follows:

Executive directors

Mr. Cai Zhen Rong

Mr. Cai Zhen Yao

Mr. Cai Zhen Ying

Mr. Cai Yang Bo

Mr. Choi Wing Toon

Mr. Mak Shiu Chung, Godfrey (appointed on 18 February 2003)

Independent non-executive directors

Ms. Choy So Yuk

Mr. Lawrence Gonzaga

In accordance with Article 108 of the Company's articles of association, Mr. Cai Yang Bo and Mr. Cai Zhen Ying will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Article 112 of the Company's articles of association, Mr. Mak Shiu Chung, Godfrey will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

The independent non-executive directors are not appointed for a specific term, but are subject to the provisions for retirement and rotation under the Company's articles of association.

BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the directors of the Company and the Group are set out on pages 17 to 18 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing from 1 August 2002, which continues thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

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DIRECTORS' SERVICE CONTRACTS (continued)

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director of the Company had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during or at the end of the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year.

CONNECTED TRANSACTIONS

Details of the connected transactions for the year are set out in note 26 to the financial statements.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2003, the interests of the directors or chief executives of the Company or their respective associates in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be maintained under Section 352 of the SFO, or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in the shares of the Company

Director	Capacity	Type of interest	Number of shares	Percentage of shareholding in the Company
Mr. Cai Zhen Rong	Beneficial owner	Personal	406,800,000	52.72%

Rights to acquire the shares of the Company

Bonus warrants were granted following the placing and new issue of shares of the Company on 29 August 2002. Each holder of the bonus warrants will entitle to subscribe for one ordinary share of the Company at HK\$0.65 subject to adjustment. They are exercisable from 29 August 2002 to 21 August 2005 (both dates inclusive).

Director	Capacity	Type of interest	Number of warrants	Percentage of interests to the issued share capital
Mr. Cai Zhen Rong	Beneficial owner	Personal	48,000,000	6.22%

Save as disclosed above, as at 30 September 2003, none of the directors and chief executives of the Company or their respective associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be maintained under Section 352 of the SFO, or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code in the Listing Rules.

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SHARE OPTION SCHEME

Particulars of the Company's share option scheme (the "SO Scheme") and other details are set out in note 21 to the financial statements. Details of the share options granted under the SO Scheme during the year are as follows:

Name and category of participants	Number of share options				Date of grant of share options	Exercise period of share options	Exercise price per share
	At 1 October 2002	Granted during the year	Exercised during the year	At 30 September 2003			
Directors or their associates							
Mr. Cai Zhen Yao	-	6,400,000	(6,400,000)	-	29 January 2003	29 January 2003 to 28 January 2013	0.57
Mr. Cai Zhen Ying	-	6,400,000	(6,400,000)	-	29 January 2003	29 January 2003 to 28 January 2013	0.57
Mr. Cai Yang Bo	-	6,400,000	(6,400,000)	-	29 January 2003	29 January 2003 to 28 January 2013	0.57
Ms. Su Li Yuan Note (a)	-	6,400,000	(6,400,000)	-	29 January 2003	29 January 2003 to 28 January 2013	0.57
Mr. Cai Yang Hang Note (a)	-	6,400,000	(6,400,000)	-	29 January 2003	29 January 2003 to 28 January 2013	0.57
	-	25,600,000	(25,600,000)	-			
Other employees in aggregate							
	-	32,000,000	(32,000,000)	-	29 January 2003	29 January 2003 to 28 January 2013	0.57
	-	64,000,000 Note (b)	(64,000,000) Note (c)	-			

Notes:

- Ms. Su Li Yuan and Mr. Cai Yang Hang are respectively the spouse and the son (under the age of 18 years at the date of grant of share options) of Mr. Cai Zhen Rong, the chairman and an executive director of the Company.
- The closing price of the shares of the Company immediately before 28 January 2003 on which the share options were granted was HK\$0.57.
- The weighted average closing price of the shares immediately before the dates on which the options were exercised was approximately HK\$1.00.
- All the options were immediately vested upon granted.

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SHARE OPTION SCHEME (continued)

The directors of the Company consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuation are variables which cannot be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders.

As at the date of this report, the total number of the Company's shares available for issue under the SO Scheme is 67,200,400 shares, being approximately 8.71% of the issued share capital of the Company.

To enhance the transparency of the status in relation to the granting of share options of the Company, on 19 August 2003, the Company made an announcement to the public that it would make announcements to inform the shareholders promptly every time when the directors approve granting of any further share options.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' and chief executives' interests in shares or short positions in shares and underlying shares" and "Share option scheme", at no time during the year was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangements to enable the directors of the Company or their associates (as defined in the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors or chief executives of the Company, as at 30 September 2003, the Company has not been notified by any persons (other than the directors or the chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to date of this report, no directors of the Company or their respective associates (as defined in the Listing Rules) are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses of which the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 27 to the financial statements.

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CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 to the Listing Rules except that the independent non-executive directors of the Company are not appointed for specific terms, but are subject to retirement by rotation at the annual general meeting in accordance with the Company’s articles of association.

AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

During the year, RSM Nelson Wheeler were appointed as auditors of the Company to fill the casual vacancy so arising upon the resignation of Ernst & Young as auditors of the Company. Apart from the foregoing, there have been no other changes to the auditors of the Company since 3 January 2002, being the date of incorporation of the Company.

The accompanying financial statements for the year ended 30 September 2003 were audited by RSM Nelson Wheeler. RSM Nelson Wheeler retires and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Cai Zhen Rong

Chairman

Hong Kong, 16 January 2004